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A USDA-ERS BRIEFING BOOKLET



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Service

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THE BASIC MECHANISMS OF U.S. FARM POLICY

**How They Work,
with
Examples and Illustrations**

- Part One. Target, Loan and Deficiency.**
Part Two. Deficiency Payments, Certificates and PIK & Roll.
Part Three. Export Enhancement, FOR, Marketing Loans, Disaster Payments and CRP.

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PREFACE

Many kinds of people -- not only farmers but also Representatives, congressional staff, lobbyists, new employees of USDA, and interested public -- come to USDA looking for a quick way to understand farm policy. This series of booklets is addressed to that wide audience and is intended as an introduction to the key concepts.

The booklet is meant to work in the same general way as an informal briefing, such as one given with a series of overhead transparencies. Each page of the booklet contains a single "screen" of illustrative material, accompanied above and below by an "instructor's comments" -- all of which is followed by a question to the reader. The answer to each such question will be found on the next page of the briefing.

This booklet is based on materials supplied by Keith Collins and Larry Salathe of the Economic Analysis Staff and by various researchers in the Economic Research Service of the U.S. Department of Agriculture. It was prepared by William J. Hudson (The ProExporter Network, Maumee, Ohio), under contract with the Economic Research Service.

The Basic Mechanisms of U.S. Farm Policy

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A USDA-ERS BRIEFING BOOKLET

**THE BASIC
MECHANISMS OF
U.S. FARM POLICY**

PART ONE:

Target, Loan & Deficiency

How They Work

The complete array of farm policy mechanisms can appear overwhelming to anyone unfamiliar with the history of U.S. agricultural legislation.

SOME BASIC MECHANISMS OF U.S. FARM POLICY

Target Price	Estimated Deficiency
Loan (Nonrecourse loan) Rate	Advanced Deficiency
Deficiency Payment	Farmer-Owned Reserve
Original Deficiency	Reserve Rollover
Reduced (Findley) Loan Rate	Payment-In-Kind (PIK)
Emergency Compensation	Commodity Certificate
Acreage Reduction Program (ARP)	PIK and Roll
Paid Diversion	Zero-92 and 50-92
Base Acres	Export Enhancement
Program Yield	Posted County Price (PCP)
Program Production	Corn (& Wheat) Catalog
Basic Commodities	Conservation Reserve
Acreage Conservation Reserve	Disaster Payment
Conservation Use	Marketing Loan
Payment Limitation	

Many more mechanisms could be listed, from the last six decades of agricultural policy.

Question: *Where do all of these mechanisms originate?*

Strictly speaking, policy mechanisms originate in Congress. But Congress reflects public concerns about food, agriculture, and the needs of farmers.

APPROACH OF THIS BRIEFING

The best approach to explaining farm policy looks at the following three steps:

1. The public concerns that led to the policy
2. The policy mechanisms as seen by the farmer
3. The cost of the policy as seen in USDA's budget

Question *When was the last major Farm Bill passed in the United States?*

Congress passed the "Food Security Act" of 1985 almost 5 years ago, and will consider new legislation in 1990.

BACKGROUND OF 1985 FARM BILL

PROBLEMS

FINANCIAL
STRESS

PROGRAM
COSTS

CROP
SUR-
PLUSES

EXPORT
COMPETI-
TIVENESS

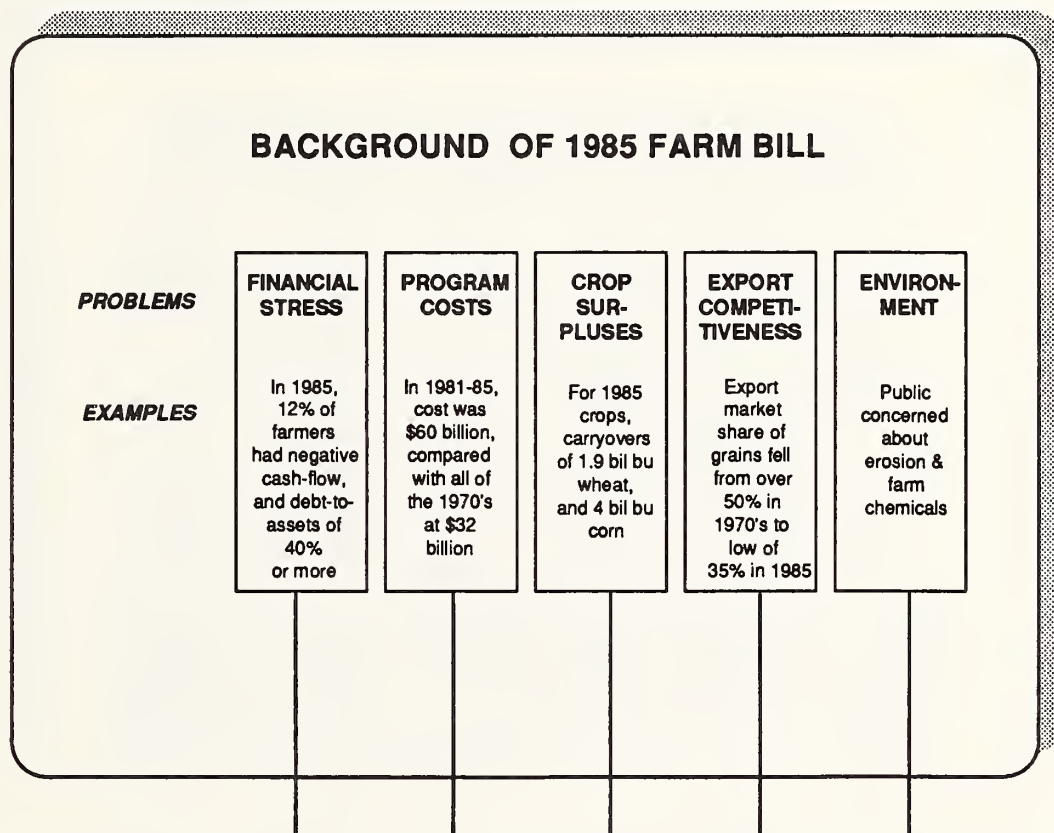
ENVIRON-
MENT

These were the five main areas of public concern that the 1985 Farm Bill attempted to cover.

Question: *Can you recall any examples of these five problem areas?*

In the early 1980's, the world economy had weakened, and United States grain exports had fallen sharply -- causing a whole series of troubles. Many farmers had debt problems and mortgage foreclosures.

BACKGROUND OF 1985 FARM BILL



Examine all of these examples, and try to bring back the atmosphere under which the 1985 Farm Bill was developed. This will help in understanding the policy mechanisms that were used.

Question: What were the goals of the 1985 Farm Bill?

The goals were basically to turn the conditions around, so that good farmers could stay in business.

BACKGROUND & GOALS OF 1985 FARM BILL

PROBLEMS	FINANCIAL STRESS	PROGRAM COSTS	CROP SURPLUSES	EXPORT COMPETITIVENESS	ENVIRONMENT
EXAMPLES	In 1985, 12% of farmers had negative cash-flow, and debt-to-assets of 40% or more	In 1981-85, cost was \$60 billion, compared with all of the 1970's at \$32 billion	For 1985 crops, carryovers of 1.9 bil bu wheat, and 4 bil bu corn	Export market share of grains fell from over 50% in 1970's to low of 35% in 1985	Public concerned about erosion & farm chemicals
GOALS OF 1985 FARM BILL	More cash income to farmers	Reduce USDA taxpayer costs	Reduce surplus	Regain world trade share	Improve environment

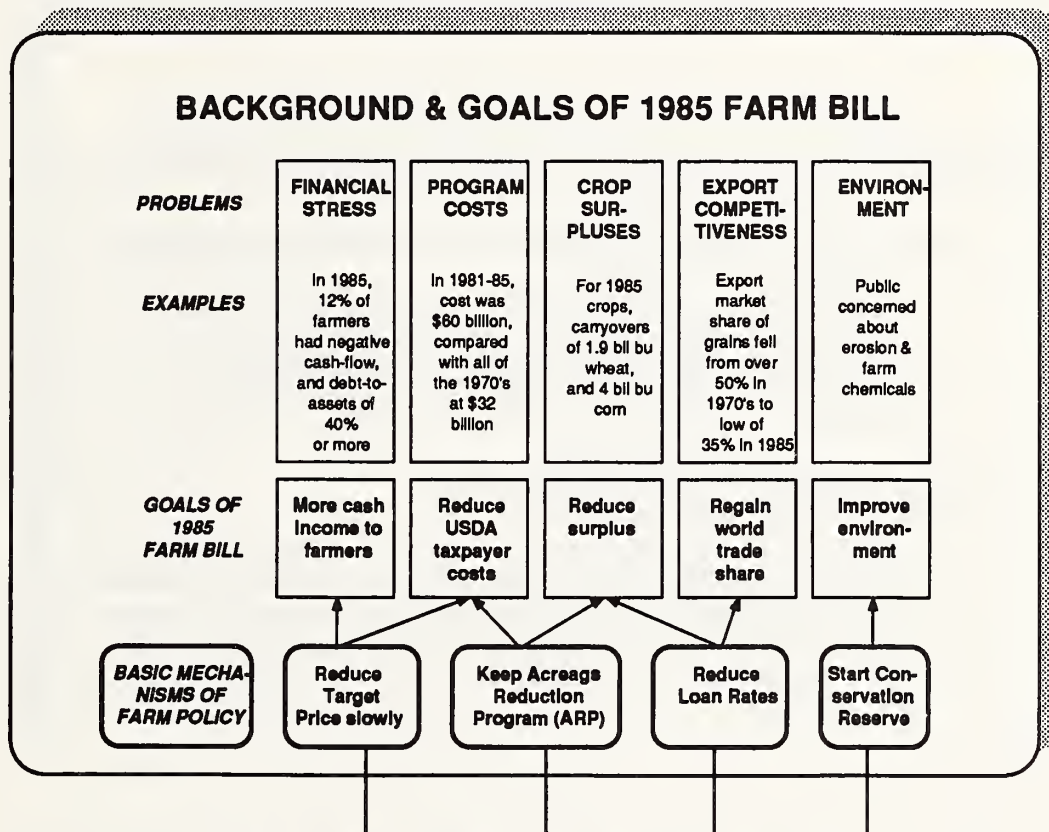
These are the five goals of the 1985 Farm Bill. One of the first things to recognize is that some of these goals conflicted with each other -- for instance, in order to get more cash to farmers, you run the risk of increasing, not decreasing, the USDA budget and taxpayer costs.

Question *Which three main mechanisms of farm policy did Congress draw on to achieve the above set of goals?*

The three main mechanisms used in the 1985 Farm Bill are:

- Target Price.
- Loan Rate.
- and Acreage Reduction Programs.

These mechanisms were not new in 1985, but the way they were used was a change.



These are the three main mechanisms used in the 1985 Farm Bill, and we will examine exactly how they work.

This mechanism will be explained later, in Part Two.

Question What agencies within the USDA are responsible for administering the farm policy enacted by Congress?

USDA administers the programs through two main agencies as follows:

TWO KEY USDA AGENCIES IN ADMINISTERING FARM POLICY

- o **ASCS (Agricultural Stabilization and Conservation Service)**

A USDA agency responsible for administering farm price and income support programs as well as conservation and forestry cost-sharing programs; local ASCS committees and offices are maintained in nearly all farming counties.

- o **CCC (Commodity Credit Corporation)**

A wholly owned Federal corporation within USDA. CCC functions as the financial institution through which payments are made. CCC borrows money from the Treasury to make payments to farmers, and repays the Treasury with receipts (from loan payments or sales) and with congressional appropriations.

Let's take another look at the list of agricultural policy mechanisms.

This booklet deals mainly with Target Price, Loan Rate, and Deficiency Payment. But several other mechanisms can be understood at the same time -- for instance, it will be natural to examine ARP, Paid Diversion, Base Acres, and a few others, as shown below.

SOME BASIC MECHANISMS OF U.S. FARM POLICY

Target Price
Loan (Nonrecourse loan) Rate
Deficiency Payment
Original Deficiency
Reduced (Findley) Loan Rate
Emergency Compensation
Acreage Reduction Program (ARP)
Paid Diversion
Base Acres
Program Yield
Program Production
Basic Commodities
Acreage Conservation Reserve
Conservation Use
Payment Limitation

Estimated Deficiency
Advanced Deficiency
Farmer-Owned Reserve
Reserve Rollover
Payment-In-Kind (PIK)
Commodity Certificate
PIK and Roll
Zero-92 and 50-92
Export Enhancement
Posted County Price (PCP)
Corn (& Wheat) Catalog
Conservation Reserve
Disaster Payment
Marketing Loan

Part One of this series of booklets will concentrate on the left-hand side of this list.

Parts Two and Three will explore the mechanisms on the right-hand side of this list.

Make a Guess: In terms purely of cash transfers to farmers, which mechanism on the left side of the list is most important?

The Deficiency Payment is usually the mechanism which routes the most money to farmers.

Read the following definition, and then we'll work through some examples.

DEFICIENCY PAYMENT

Definition

A government payment made to farmers who participate in feed grain, wheat, rice, or upland cotton programs. The payment rate is per bushel, pound, or hundredweight, based on the difference between a target price and the market price or the loan rate, whichever difference is less. The total payment a farm receives is the payment rate multiplied by the eligible production.

Notice that in order to receive a Deficiency Payment, farmers must participate -- which means that they must have officially assigned "Base Acres" and "Program Yield," and that they must comply with any "Acreage Reduction Program."

These are known as the "Basic Commodities." The feed grains include corn, sorghum (milo), oats, and barley.

Question (take a stab!): If Target is \$3.03 per bu. and market price is \$1.94, then how much is the Deficiency Payment Rate?

In its simplest form, the Deficiency Payment Rate is calculated as the difference between Target and market price, which means that the answer in this case would be \$1.09 per bushel..

CALCULATING DEFICIENCY PAYMENT RATE

Simplest Case

Corn (1987)

Target Price **\$3.03**

Market Price **\$1.94**

Deficiency Payment Rate **\$1.09**

In the Deficiency mechanism, Congress sets a "Target" price, which is its judgment of a desirable return to corn farmers. If the actual market price of corn is below this Target (i.e., deficient), then Congress authorizes USDA to make farmers a payment of the difference, and this payment is called the "Deficiency Payment Rate."

Question *Was there more to the definition of "Deficiency Payment Rate" than just "Target" and "market" price?*

Yes, the "Loan Rate" has an important role in calculating Deficiency Payment. Let's take another careful look at the definition.

DEFICIENCY PAYMENT

Definition

A government payment made to farmers who participate in feed grain, wheat, rice, or upland cotton programs. The payment rate is per bushel, pound, or hundredweight, based on the difference between a target price and the market price or the loan rate, whichever difference is less.

The total payment a farm receives is the payment rate multiplied by the eligible production.

Notice that the calculation of Deficiency Payment Rate requires two steps. First you compare Target with market, and then you compare Target with Loan. Whichever of the two differences is smallest becomes the so-called Deficiency Payment Rate.

Question: Suppose Target is \$3.03, market is \$1.94, and Loan is \$1.82. What is Deficiency?

In this case, the difference between Target and market will be less than the difference between Target and Loan.

To calculate Deficiency requires two steps, as shown below.

CALCULATING DEFICIENCY PAYMENT RATE
Actual Case

CORN (1987)		
Step 1	Target price	\$3.03
	Market price	<u>\$1.94</u>
	Difference	\$1.09
Step 2	Target price	\$3.03
	Loan rate	<u>\$1.82</u>
	Difference	\$1.21

In this two-step process, the smallest difference becomes the Deficiency Payment Rate, which in this case is \$1.09.

Question: What is meant by a "Loan Rate," and how does Congress determine at what level to set these figures?

Basically, Congress sets a "Target" of the price it believes would provide a reasonable return to farmers, and then it sets a "floor," which is a price below which Congress believes the farmer should not have to sell. The "floor" is called the "Loan Rate."

LOAN RATE

Definition

The rate at which the government will provide a loan to farmers to enable them to hold their crops for sale at some later date. Only farmers participating in farm programs are eligible for loans. The loan rate is per bushel, pound, or hundred-weight of production, and the term of the loan is usually 9 months.

The loan is "nonrecourse." This means that the government has no recourse but to take the crop itself in repayment of the loan, if the farmer so desires -- no matter how far market price may have fallen.

The U.S. Government makes this "nonrecourse" pledge to American farmers, and thus the U.S. market price has a hard time declining below the U.S. Loan Rate -- because at prices near or below the Loan Rate, farmers turn their grain over to the government rather than sell it on the market. In this sense, the Loan is a "floor."

Question: *Do all the "Basic Commodities" have the same Deficiency Payment Rate?*

No. Each one of the Basic Commodities has a different set of Target Prices and Loan Rates, and thus different Deficiency Payment Rates.

CALCULATING DEFICIENCY PAYMENT RATE
Actual Case

		<u>CORN (1987)</u>	<u>WHEAT (1987)</u>
Step 1	Target price	\$3.03	\$4.38
	Market price	<u>\$1.94</u>	<u>\$2.60</u>
	Difference	\$1.09	\$1.78
Step 2	Target price	\$3.03	\$4.38
	Loan rate	<u>\$1.82</u>	<u>\$2.28</u>
	Difference	\$1.21	\$2.10

In 1987, for both corn and wheat, the Deficiency Payment Rate turned out to be the difference between Target and market, rather than the difference between Target and Loan.

Question: *When was the last time that the condition occurred, let's say for corn, when market price fell below the Loan Rate?*

1986 was the last year that market price was below the Loan Rate-- which shows that Loan is not an absolute "floor" for price.

In every year, the Deficiency Payment Rate is calculated in a two-step procedure which determines the smallest difference -- either between Target and Market, or between Target and Loan.

CALCULATING DEFICIENCY PAYMENT RATE Actual Cases for Past Four Years

		CORN (1985)	CORN (1986)	CORN (1987)	CORN (1988)
Step 1	Target price	\$3.03	\$3.03	\$3.03	\$2.93
	Market price	<u>\$2.23</u>	<u>\$1.50</u>	<u>\$1.94</u>	<u>\$2.50</u>
	Difference	\$0.80	\$1.53	\$1.09	\$0.43
Step 2	Target price	\$3.03	\$3.03	\$3.03	\$2.93
	Loan rate	<u>\$2.55</u>	<u>\$1.92</u>	<u>\$1.82</u>	<u>\$1.77</u>
	Difference	\$0.48	\$1.11	\$1.21	\$1.16

Market price was
below Loan Rate

Market price was
above Loan Rate

Let's take a closer look at the corn Loan Rate for 1987, and examine one of the "fine points" of the 1985 Farm Bill.

The 1985 Farm Bill permitted the Secretary to set the Loan Rate based on past market prices, but limited to a 5-percent annual drop. For 1987, this "Basic" Rate could be no lower than \$2.28. But the bill gave the Secretary discretion to announce a Rate up to 20 percent lower, the so-called Reduced (Findley) Loan Rate, which was \$1.82

The names for these two tiers of Deficiency are given below.

CORN LOAN RATE & FINDLEY LOAN IN 1987

Target Price	\$3.03	
Basic Loan Rate	<u>\$2.28</u>	
Original Deficiency Payment	\$0.75	
Reduced (Findley) Loan Rate	<u>\$1.82</u>	
Emergency Compensation (Sometimes called Findley Deficiency)	\$0.46	
		\$1.21

The maximum possible "Total Deficiency Payment Rate" \$1.21. But the actual Rate was only \$1.09. The actual Rate did not reach the maximum because market price did not fall to Loan (\$1.82). Market price fell only to \$1.94, which meant that the actual Deficiency Payment Rate was \$3.03 - \$1.94 = \$1.09.

Question: *Is the farmer subject to limits on the amount of Deficiency Payment?*

The payment limit is \$50,000 for Original Deficiency, and \$250,000 for Original Deficiency and Emergency Compensation together.

PAYMENT LIMITS

Annual Payment Limit	Payments Subject To:
\$50,000	Deficiency (Target Price less Basic Loan Rate) Paid Land Diversion
\$250,000	Same as \$50,000 plus: Findley Payments (Basic Loan less Reduced Loan) Disaster Payments
No Limit	Nonrecourse Loans

Question: *How do farmers decide whether to participate in farm programs?*

Farmers compare what they would make with and without the government payment. They first calculate their expected bushels of production, estimate the price per bushel, and then subtract the cost of production from the sales revenue. This figure of net income must then be calculated two ways, with and without the effects of participating in the government program.

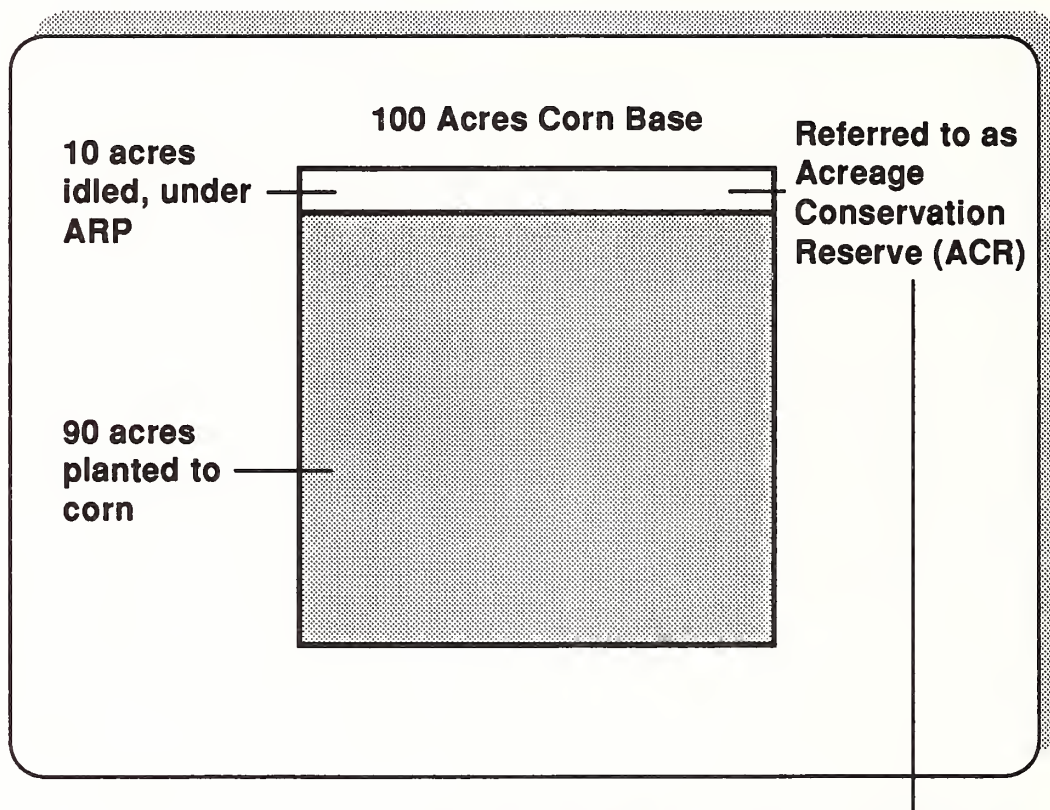
BASIC CALCULATION OF FARM INCOME
Before Participation

	Amount	Unit
Acres planted	100	acres
x Normal Yield	x 135	bushels/acre
= Production	13,500	bushels
x Market price	x\$2.25	\$/bushel
= Sales	\$30,375	\$
- Production Cost (at \$175/acre)	(\$17,500)	\$
= Net Income	\$12,875	\$

The problem that the farmer has is that price is not set ahead of time, it must be projected.

The complexity of calculations goes up dramatically when we include the option of participating in government programs.

Let's take the case of a farmer with "Official Base Acres" for corn at 100 acres. To qualify for a Deficiency Payment (in 1989), the farmer must divert 10% of the base away from corn and into Conservation Use.



ACR land must be put into an approved Conserving Use that protects the land from weeds, and from wind and water erosion.

The farmer's next step is to calculate the costs and likely returns in two cases, participating in ARP and not participating in ARP.

Below we show the farmer's income without participating, and on the next page we show the same thing with participating.

ACCOUNTING METHOD FOR EVALUATING GOVERNMENT PROGRAM PARTICIPATION

	Units	No ARP
Base Acres	acres	100
Req'd Conservation Use	acres	10
Permitted Acres	acres	90
Planted Acres	acres	100
Actual Yield	bu/ac	135
Production	bushels	13500
Sell at elevator bid	\$/bu	\$2.25
Revenue from sale	\$	\$30,375
Put under loan at	\$/bu	\$1.65
Revenue from loan	\$	\$0
Eligible Planted Acres	acres	90
Program Yield	bu/ac	115
Program Production	bushels	10350
Deficiency Payment Rate	\$/bu	\$0.59
Revenue from Deficiency	\$	\$0
Revenue	\$	\$30,375
Planted Acres	acres	100
Production Cost	\$/ac	\$175
Total Production Cost	\$	-\$17,500
Income	\$	\$12,875

Farmer who plants all 100 base acres to corn gets revenue from market, but does not qualify for a loan or a deficiency payment.

The figures below show that with market price in the range of \$225, the farmer makes more income by complying with a 10% ARP, and getting a Deficiency Payment in return.

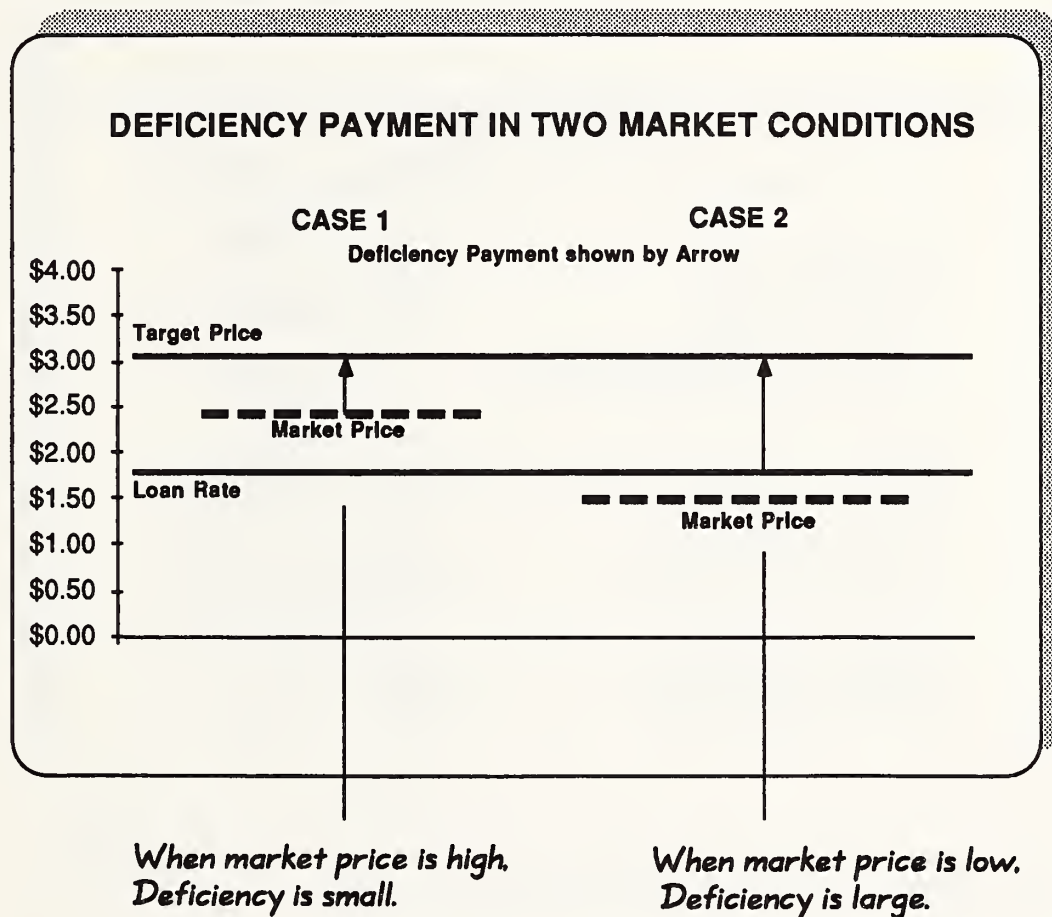
ACCOUNTING METHOD FOR EVALUATING GOVERNMENT PROGRAM PARTICIPATION

	Units	No ARP	ARP
Base Acres	acres	100	100
Req'd Conservation Use	acres	na	10
Permitted Acres	acres	na	90
Planted Acres	acres	100	90
Actual Yield	bu/ac	135	135
Production	bushels	13500	12150
Sell at elevator bid	\$/bu	\$2.25	\$2.25
Revenue from sale	\$	\$30,375	\$27,338
Put under loan at	\$/bu	\$1.65	\$1.65
Revenue from loan	\$	\$0	\$0
Eligible Planted Acres	acres	90	90
Program Yield	bu/ac	115	115
Program Production	bushels	10350	10350
Deficiency Payment Rate	\$/bu	\$0.59	\$0.59
Revenue from Deficiency	\$	\$0	\$6,107
Revenue	\$	\$30,375	\$33,444
Planted Acres	acres	100	90
Production Cost	\$/ac	\$175	\$175
Total Production Cost	\$	-\$17,500	-\$15,750
Income	\$	\$12,875	\$17,694

Revenue from sale of bushels goes down, because of the 10 acres idled, but the deficiency payment more than makes up for it (at these price assumptions).

Question. What happens to USDA's budget when market prices are low, and when they are high?

The chart below shows two cases, one with high market price, and one with low.



Question: (take a stab) If the Deficiency Payment Rate is \$0.59 per bushel for corn, and the crop is normal size, how much money will USDA have to pay (in billions of dollars)?

If Deficiency is just under a dollar a bushel, and if the corn crop is several billion bushels, then the overall Deficiency Payment by USDA must be several billion dollars.

Below is a simplified calculation.

ESTIMATED COST OF CORN DEFICIENCY TO USDA BUDGET

	Amount	Unit
Base Acres	83.3	mil acres
Participation Rate	x 75%	
= Acres Enrolled	62.5	mil acres
x ARP % Required	x 10%	
= Acreage Conservation Reserve	6.3	mil acres
Enrolled Acres	62.5	mil acres
ACR	-6.3	mil acres
Program Acres	56.2	mil acres
Average Program Yield	x 105	bushels/acre
Total Program Production	5900	mil bushels
Eligible for Deficiency	5900	mil bushels
Deficiency Payment Rate	x \$0.59	\$
Deficiency Payment	\$3,500	mil \$

In this example, each 10-cent decline in the market price of corn means nearly \$600 million in Deficiency Payments by USDA.

Question: *How much does USDA pay for all the Basic Commodities and other crop subsidies?*

If corn is \$3 billion for Deficiency alone, then the total for all crops will be over \$10 billion. The total changes every year, depending on market prices and on the USDA program itself.

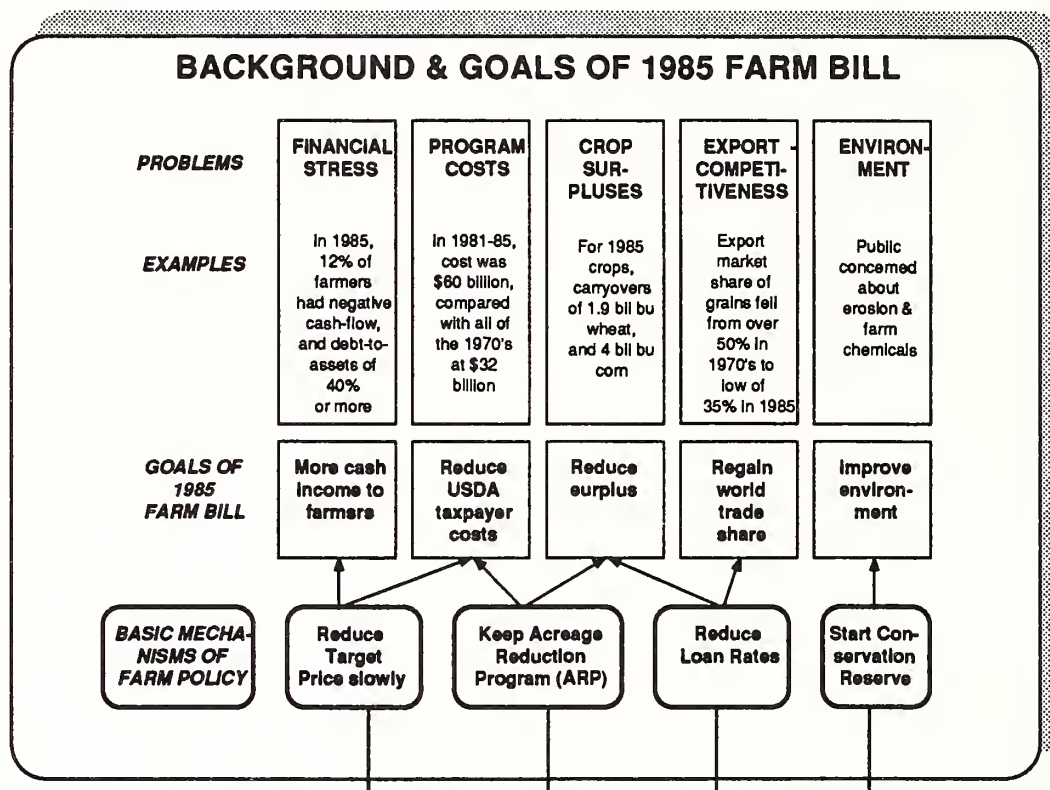
Here's how it looked in 1988.

USDA OUTLAYS BY COMMODITY (FISCAL 1988)

Feed grains (incl. corn)	9,053	mil \$
Wheat	678	
Rice	128	
Upland Cotton	666	
Tobacco	-453	
Dairy	1,295	
Soybeans	-1,676	
Peanuts	7	
Sugar	-247	
Honey	100	
Wool	5	
Operating Expense	621	
Interest Expense	395	
Export Programs	193	
Other	1,696	
Total	12,461	mil \$

Question *What were the public policy concerns that led to the above expenditure of over \$12 billion, and what were the goals of the 1985 Farm Bill?*

The goals of the 1985 Farm Bill were to turn the conditions around -- to help relieve financial stress among farmers, to reduce taxpayer costs, to reduce surplus, to regain world trade share, and to improve the environment.



These are the three main mechanisms used in the 1985 Farm Bill, and we have examined how they work in Part One.

This mechanism will be explained in Part Three.

The purpose of this booklet was to introduce the basic mechanisms of U.S. Farm Policy, especially Target Price, Loan Rates, and Deficiency Payments. Many further details remain, and these are covered in Parts Two and Three.

A USDA-ERS BRIEFING BOOKLET

THE BASIC MECHANISMS OF U.S. FARM POLICY

PART TWO:

**Deficiency Payments,
Certificates
and PIK & Roll**

How They Work

The complete array of farm policy mechanisms can appear overwhelming to anyone unfamiliar with the history of U.S. agricultural legislation.

SOME BASIC MECHANISMS OF U.S. FARM POLICY

Target Price
Loan (Nonrecourse loan) Rate
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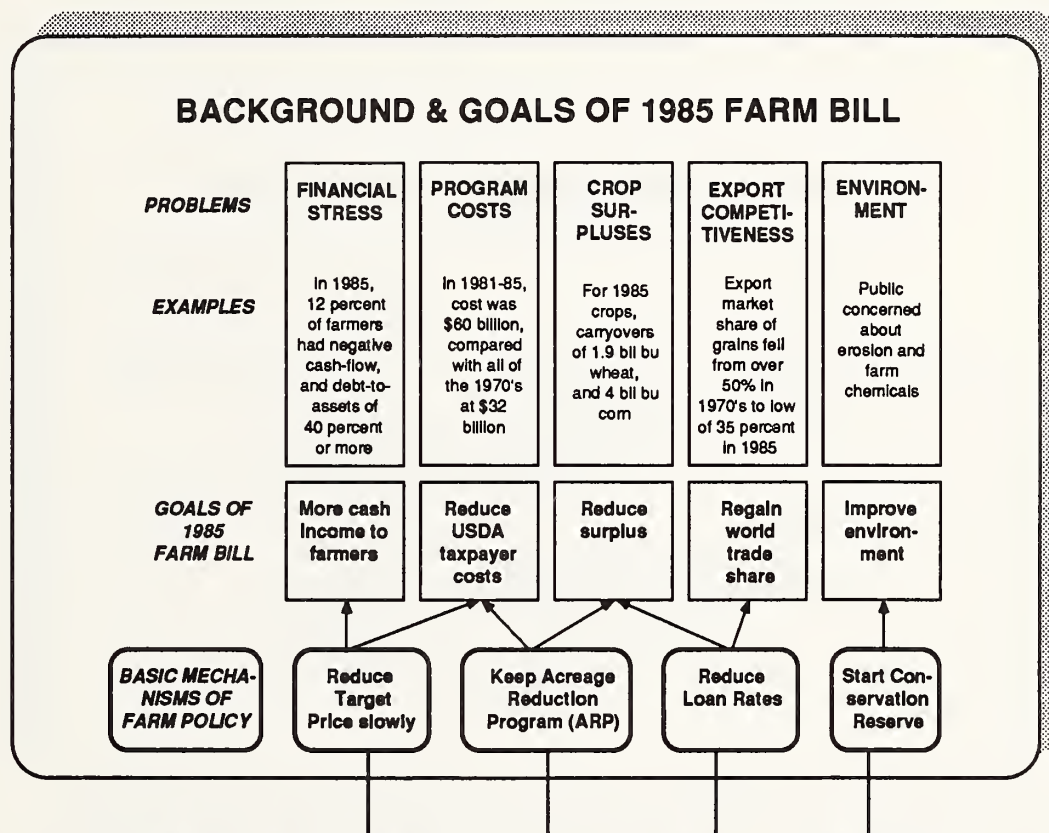
Part One concentrated on the left-hand side of this list.

Part Two explores these seven mechanisms, and Part Three will cover the remaining seven mechanisms on this table.

Let's begin with a few pages of review from Part One.

Review Question: *Where do all of these basic mechanisms of U.S. farm policy originate?*

Policy mechanisms originate mainly in Congress. But Congress reflects public concern about food, agriculture, and the needs of farmers.



The three main mechanisms used in the 1985 Farm Bill were Target Price, Loan Rate, and Acreage Reduction Programs.

The CRP also began under the 1985 Farm Bill.

Review Question Suppose that the Target Price of corn is \$3.03 a bushel, the Market Price is \$1.94, and the Loan Rate is \$1.82. How much is the Deficiency Payment Rate?

In this case, the Deficiency Payment Rate would be \$1.09.

To calculate Deficiency requires two steps, as shown below.

CALCULATING DEFICIENCY PAYMENT RATE		
<i>Actual Case</i>		
		CORN (1987)
Step 1	Target price	\$3.03
	Market price	<u>\$1.94</u>
	Difference	\$1.09
Step 2	Target price	\$3.03
	Loan rate	<u>\$1.82</u>
	Difference	\$1.21

In this two-step process, the smallest difference becomes the Deficiency Payment Rate, which in this case is \$1.09 per bushel.

Review Question What is the distinction between "Original Deficiency Payment" and "Emergency Compensation" (sometimes called Findley Deficiency)?

For wheat and feedgrains, there are two tiers of Deficiency in the 1985 Farm Bill, the Original and the Findley.

CORN LOAN RATE & FINDLEY LOAN IN 1987

Target Price	\$3.03
Basic Loan Rate	<u>\$2.28</u>
Original Deficiency Payment (maximum)	\$0.75
Reduced (Findley) Loan Rate	<u>\$1.82</u>
Emergency Compensation (maximum) (Sometimes called Findley Deficiency)	\$0.46

The 1985 Farm Bill permitted the Secretary to set the Loan Rate based on past market prices, but limited to a 5-percent annual drop. For 1987, this "Basic" Rate could be no lower than \$2.28. But the Bill gave the Secretary discretion to announce a Rate up to 20 percent lower, the so-called Reduced (Findley) Loan Rate, which was \$1.82

The next page reviews the sequence for calculating both the Original Deficiency and the Emergency Compensation.

CALCULATING ORIGINAL AND FINDLEY DEFICIENCY PAYMENT RATES

Sequence

First
compare:

Target Price

With:

Basic Loan Rate

Market Price
(First 5 months
of crop year)

Smallest
difference
becomes:

Original Deficiency Payment Rate
(Payment made before the remainder below)

Then
compare:

Basic Loan Rate

With:

Reduced
(Findley)
Loan Rate

Market Price
(12-month
season average)

Smallest
difference
becomes:

Emergency Compensation Rate
(Sometimes called Findley Deficiency.
Payment made at end of crop year.)

The next page gives the figures for the maximum Original Deficiency and Findley Deficiency for corn in 1987.

Calculating Deficiency Payment Rates always requires the comparing of rates set by government with rates prevailing in the market, and then selecting the smallest differences.

CORN LOAN RATE & FINDLEY LOAN IN 1987

Target Price	\$3.03	
Basic Loan Rate	<u>\$2.28</u>	
Original Deficiency Payment	<u>\$0.75</u>	
Reduced (Findley) Loan Rate	<u>\$1.82</u>	
Emergency Compensation (Sometimes called Findley Deficiency)	<u>\$0.46</u>	
		<u>\$1.21</u>

The maximum possible "Total Deficiency Payment Rate" is \$1.21 a bushel. But the actual Rate was only \$1.09. The actual Rate did not reach the maximum because market price, \$1.94, was above the announced Loan Rate (\$1.82). The actual Deficiency Payment Rate was \$3.03 - \$1.94 = \$1.09, which was composed of an Original Deficiency Payment of \$0.75 and Emergency Compensation of \$0.34.

Question: When does the farmer receive these payments?

The Original Deficiency Payment is made several months before the Emergency Compensation (Findley Deficiency). The amount of either payment depends on Market Price.

ORIGINAL AND FINDLEY DEFICIENCY PAYMENTS FOR CORN IN 1987

	Calculation 1 (vs. Loan)	Calculation 2 (vs. Market)
Target Price	\$3.03	\$3.03
Basic Loan Rate	<u>\$2.28</u>	
Market Price (first 5 months of year)		<u>\$1.63</u>
Original Deficiency Payment	<div style="border: 1px solid black; padding: 2px;">\$0.75</div>	
Basic Loan Rate	\$2.28	\$2.28
Reduced (Findley) Loan Rate	<u>\$1.82</u>	
Market Price (season average)		<u>\$1.94</u>
Emergency Compensation (Sometimes called Findley Deficiency)		<div style="border: 1px solid black; padding: 2px;">\$0.34</div>

Based on the basic Loan Rate because the average Market Price during the first five months of the crop year was below the basic Loan Rate.

Based on season-average price, which exceeded the Announced Loan Rate.

Question: How does the farmer know in advance what the Market Price will be and whether to participate in the government program, and thus become eligible for a Deficiency Payment?

Market Price cannot be known in advance, so the Farm Bill requires USDA to make projections of Deficiency Payment Rates which can be used by farmers to decide whether to participate in government programs.

PROJECTED DEFICIENCY PAYMENT RATE

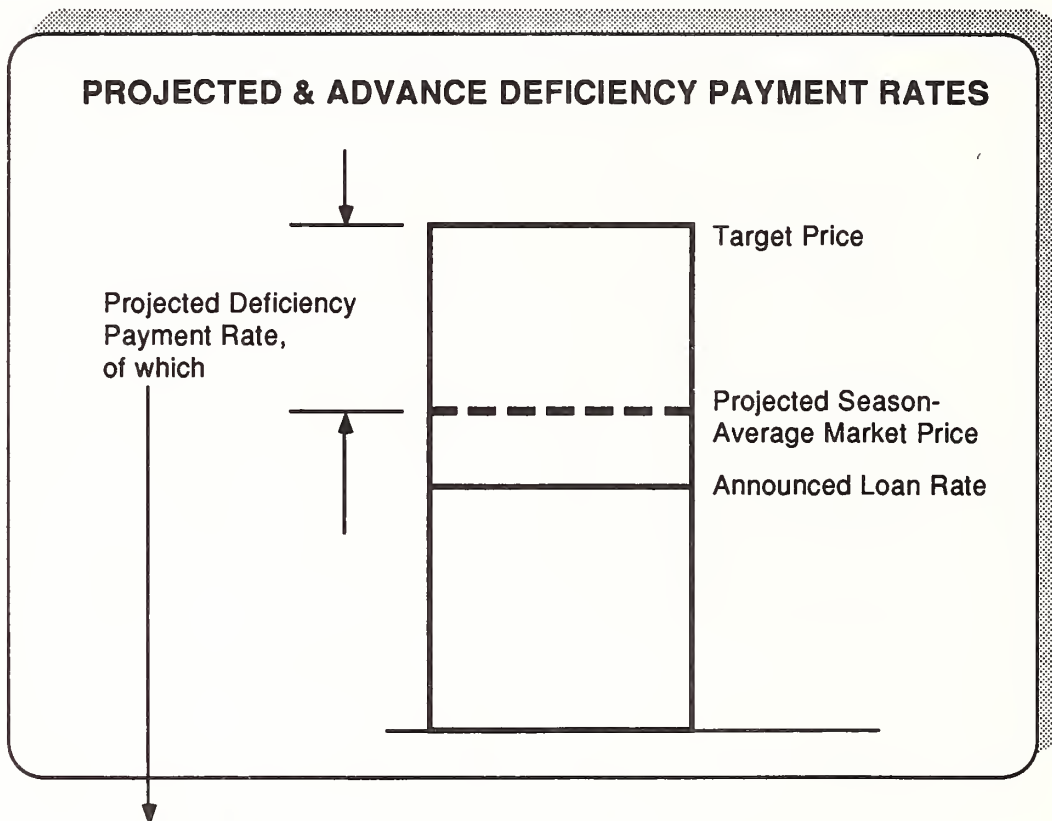
Prior to program signup, in late fall or early winter, USDA announces for each program crop a Projected Deficiency Payment Rate.

The Farm Bill requires that a portion of the Projected Payment be made in advance. This requirement, developed in response to farm financial difficulties of the mid-1980's, is a way to get cash into farmers' hands quickly -- to help avoid financial stress and to lessen credit needs in the spring.

Without the Advance Deficiency producers must wait until halfway through the crop year for the first part of the payment and until the end of the crop year for the second part.

Question: *How much of the Total Deficiency Payment is made in advance?*

Between 30 and 50 percent of the Projected Deficiency Rate is paid as the Advance Deficiency at the discretion of the Secretary of Agriculture.

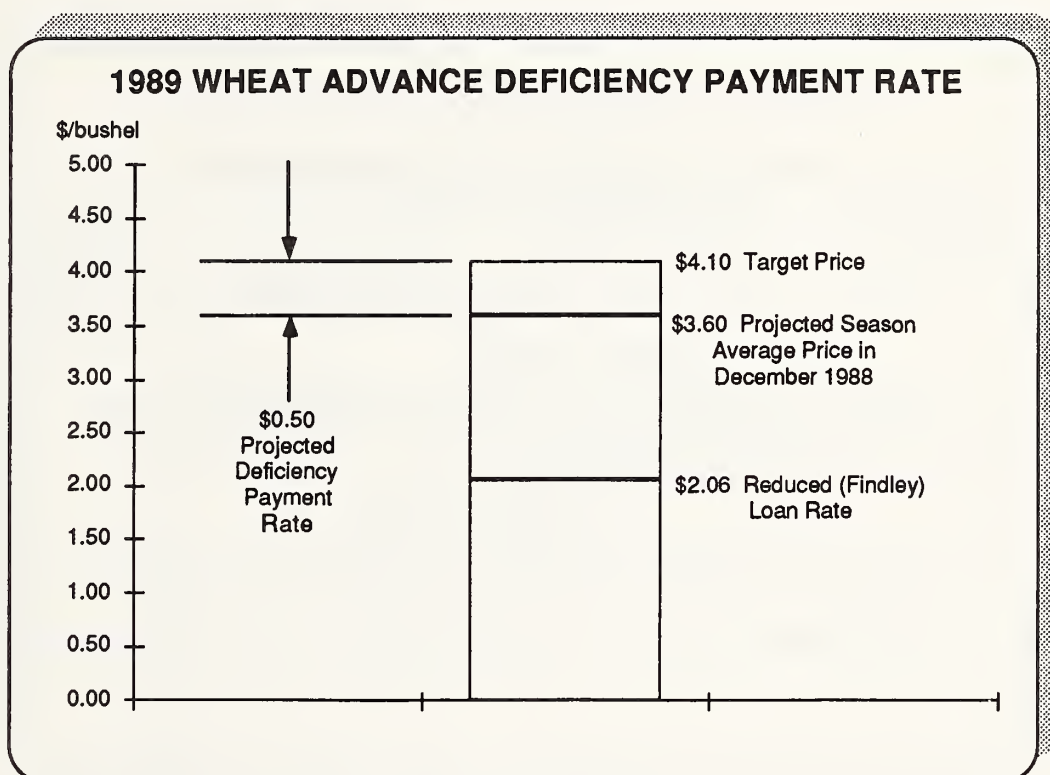


Advance Deficiency Payment Rate must be:

- 40 to 50 percent of Projected Rate for grains
- 30 to 50 percent of Projected Rate for cotton and rice

Question: In 1989, the wheat Target Price was \$4.10 per bushel, the announced Loan Rate was \$2.06, and the Projected Season-Average Market Price was \$3.60. How much was the Advance Deficiency Payment?

The Projected Deficiency Payment Rate for wheat in this case was \$0.50, of which 40 to 50 percent could be paid in advance.

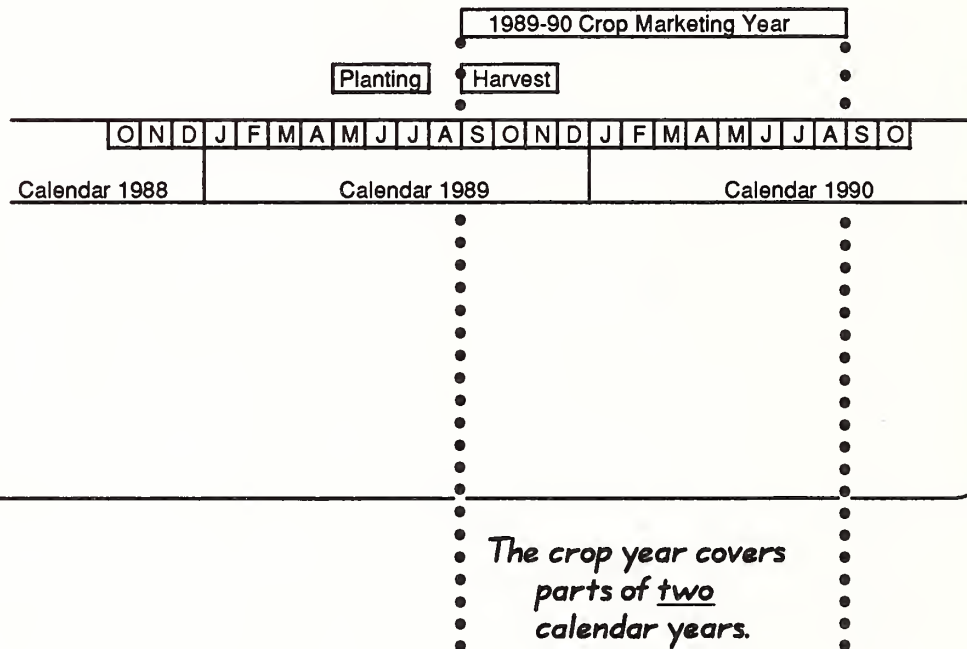


- *The Advance Deficiency Payment Rate was set and paid at 40 percent of Projected, or \$0.20 per bushel.*
- *During Spring 1989, however, the President announced an increase in the Advance Payment to 50 percent of Projected, so another 10 percent or \$0.05 per bushel was paid.*

Question: *The timing of payments depends on each crop's official crop year. When does the official crop year for grains begin, at planting or at harvest?*

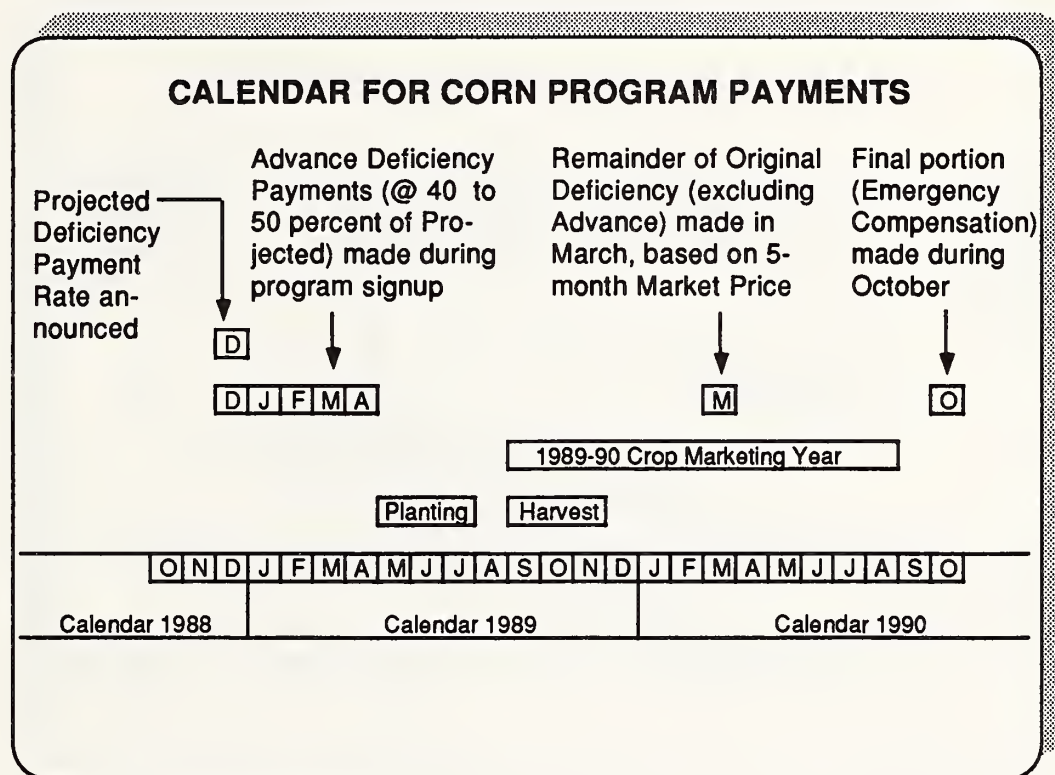
The crop year, sometimes called the marketing year, begins at harvest and extends 12 months. The following shows the crop year for corn.

CALENDAR FOR PROGRAM PAYMENTS (Example for Corn)



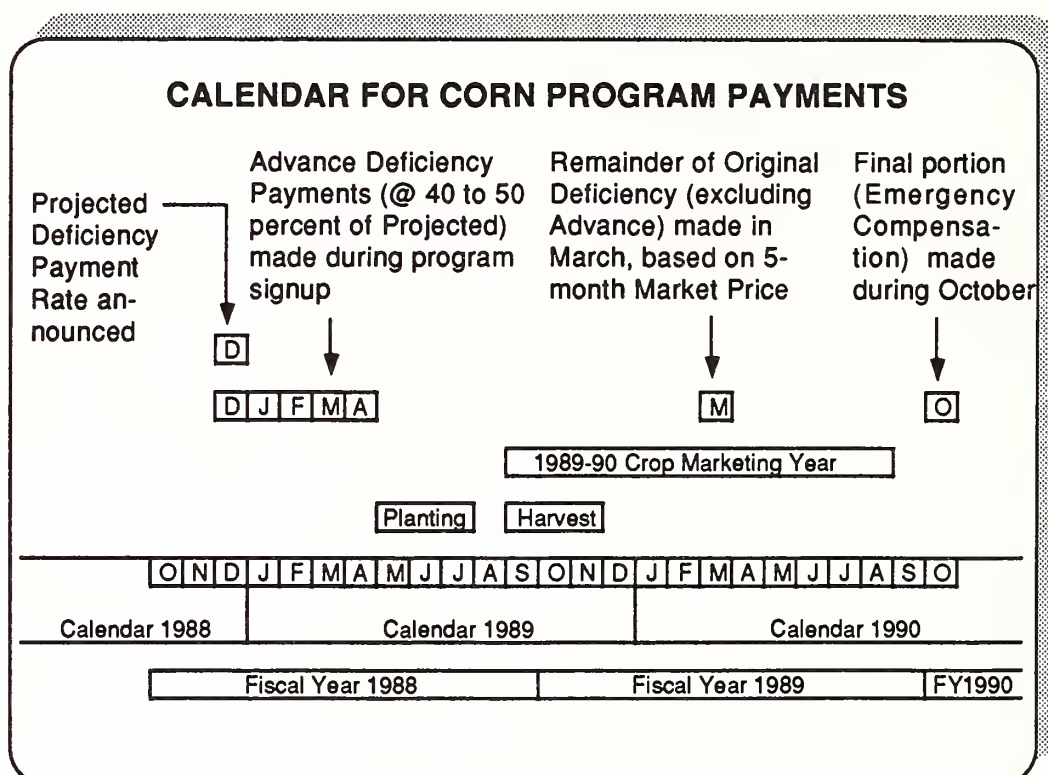
Question: *In terms of the 24-month period shown above, when are the various parts of Deficiency Payment made?*

The Deficiency Payment is made in three parts: (1) Advance, (2) Original less Advance, and (3) Emergency Compensation.



Question: *How many government fiscal years are affected by the above payments?*

Three fiscal years are involved in the overall schedule of making payments for one crop year.



A problem for government bookkeeping and for Congress when it wants to reduce farm spending during any fiscal year is that the Deficiency Payment for any single crop year, say 1989-90, is spread across three fiscal years -- FY88, FY89, and FY90. Note: The above characterizes corn and sorghum; wheat, barley and oats are on a June-May crop year, but the timing of payments within that crop year is similar to the pattern above.

Question: The Deficiency Payment Rate is per bushel. How much of the farmer's production does it cover?

Deficiency Payments are not paid on the basis of actual production but on "program production," which is a calculation made as follows from each farm's official Base Acres and Program Yield.

METHOD OF CALCULATING "PROGRAM PRODUCTION"

Base Acres

- Idled Acres (Acreage Conservation Reserve, ACR)

= Permitted Acres

x Program Yield

= Program Production

"Program Production" is the quantity eligible for Deficiency Payment when the farmer plants maximum Permitted Acres.

Question: *How are Base Acres and Program Yield determined?*

The acreage base for each crop is a 5-year moving average of acres planted to corn and "considered planted" (idled or prevented from being planted due to disasters). Program Yields are official averages frozen in 1985 and have not been adjusted since then.

In the following example, a 20-percent ARP for corn is assumed.

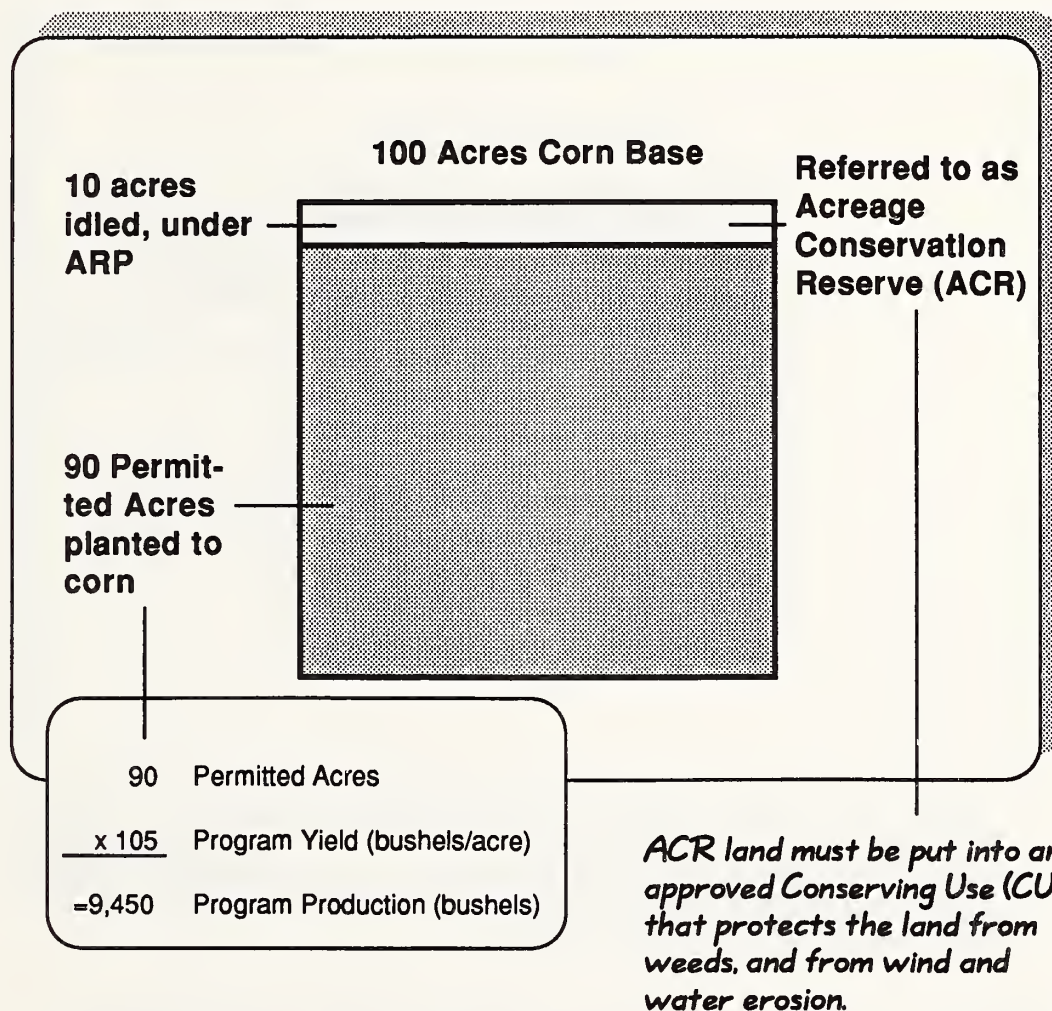
METHOD OF CALCULATING CORN BASE ACRES

	Years						
	1	2	3	4	5	6	7
Acres planted to corn	80	80	80	80	80	64	64
Acres idled (considered planted to corn)	20	20	20	20	20	16	16
Acres planted to soybeans	20	20	20	20	20	40	40
Total corn acres (planted + considered planted)	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>80</u>	<u>80</u>
Base acres of corn					100	96	92

In this example, the Base Acres decline because the farmer has elected to shift some corn acres to soybeans in years 6 and 7.

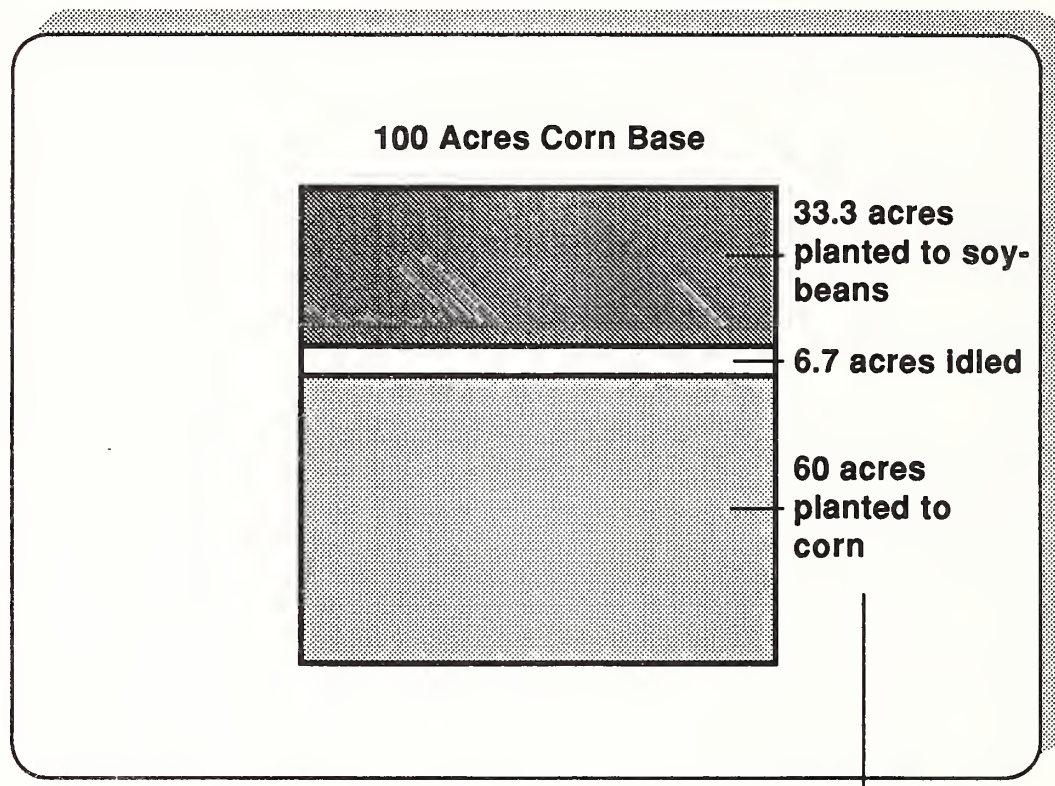
Question: If a participating farmer has corn Base Acres of 100 and if the Acreage Reduction Program (ARP) is 10 percent, then how many Permitted Acres of corn will the farmer have, and on how many acres will the farmer be eligible for Deficiency Payment?

In this case, the farmer must idle 10 acres, which leaves 90 Permitted Acres for planting to corn. The farmer will be eligible for Deficiency Payment on the 90 Permitted Acres.



Question *What happens to ACR requirements if a participating farmer wishes to plant less than the Permitted Acres?*

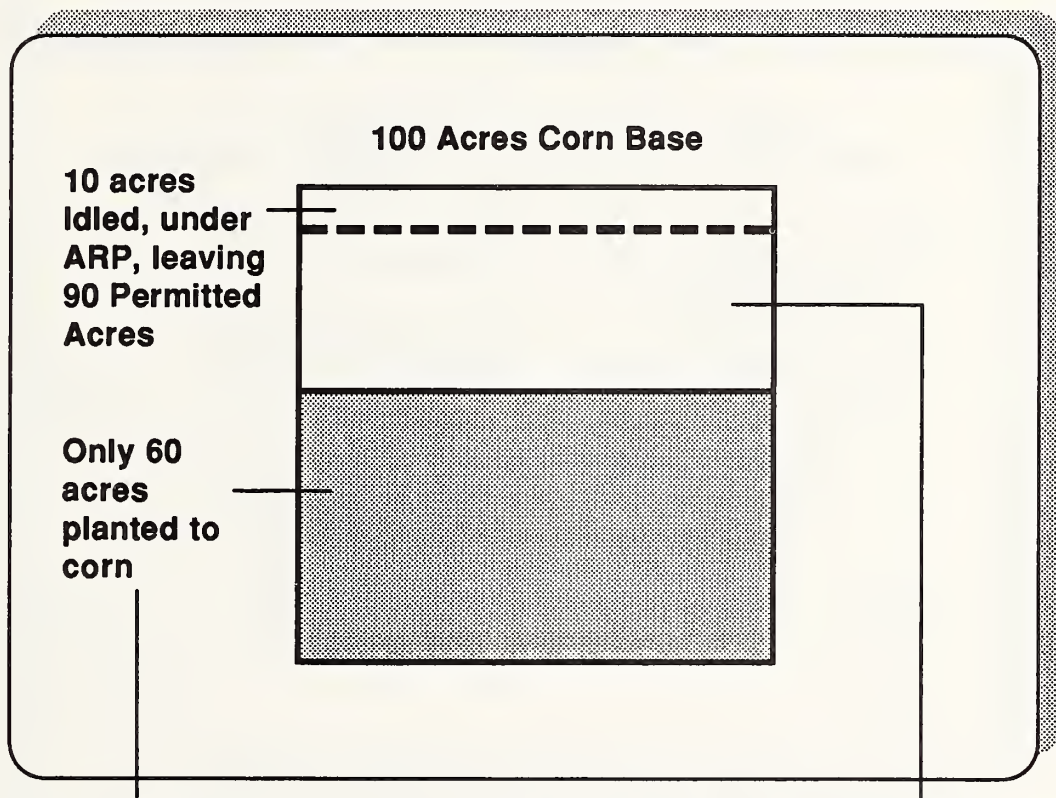
If a farmer plants less than the Permitted Acres, then the ACR (i.e. the minimum acreage required to be idled), is based on the acreage planted to the program crop (corn in this case). Deficiency Payment is also based on acreage planted to the program crop, if the underplanted acreage is planted to a crop other than the program crop.



Under a 10-percent ARP, the ACR is $10/90$ ($\approx .1111$) times the acreage actually planted to corn, which in the above case is 60 acres. So $.1111 \times 60 = 6.7$ acres for the ACR. The farmer is eligible for a Deficiency Payment on 60 acres in this case.

Question What happens to the Deficiency Payment if a participating farmer plants less than the Permitted Acres and if the underplanted acreage is devoted to a Conserving Use?

If a farmer plants less than the Permitted Acres, Deficiency applies only to the acres actually planted. But if the "underplanted acreage" is put into Conserving Use, the farmer may be eligible for partial Deficiency Payments on this acreage as well.

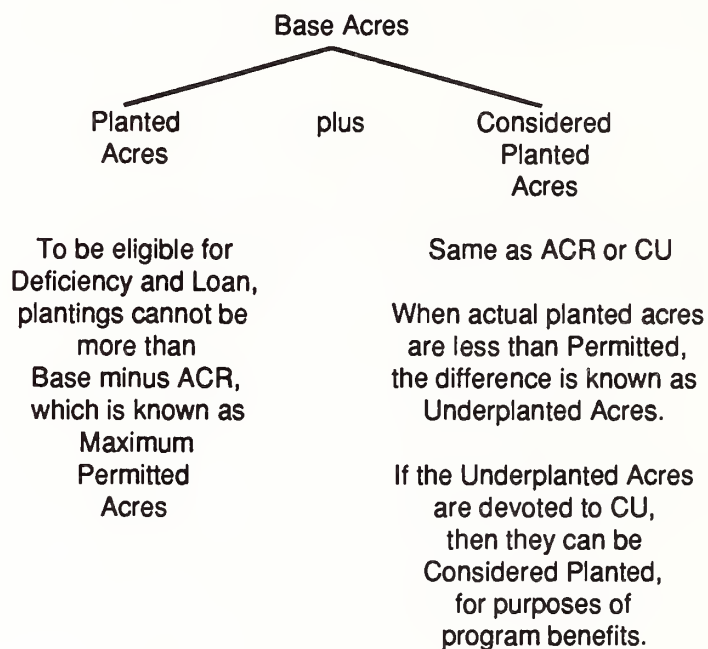


60 acres eligible for regular Deficiency.

"Underplanted Acreage" is 30 acres. If farmer puts this into Conserving Use, then a portion of this idled land also becomes eligible for partial Deficiency Payments.

The next page reviews the acreage terminology discussed in the last few pages.

PROGRAM ACRES TERMINOLOGY REVIEW



Note: ACR means Acreage Conservation Reserve, which is an amount determined each year by the ARP (Acreage Reduction Program) percentage. CU means Conserving Use.

Question What is the name for the farm policy mechanism which calculates the partial Deficiency Payment on Underplanted Acreage placed in Conserving Use, and how does it work?

The mechanism for Deficiency Payments in the case when actual plantings are below Permitted Acres is the 0-92 Program. One requirement of 0-92 is that Underplanted Acreage must be devoted to Conserving Use.

DEFICIENCY PAYMENTS IN CORN 0-92 PROGRAM

				Planted Acres		Program Yield		Actual Deficiency Payment Rate		Deficiency Payment
Regular Deficiency				60	x	105	x	\$0.60	=	\$3,780
	Permitted Acres	0-92 Factor		Planted Acres		Program Yield		Projected Deficiency Payment Rate		
Partial Deficiency	90	x 92%	-	60	x	105	x	\$0.60	=	<u>\$1,436</u>
Total Payment										\$5,216

The producer receives the regular Deficiency Payment on 60 acres and a partial Deficiency on the remainder. The partial Deficiency is based on the Projected Rate on 92 percent of Permitted Acres less Planted Acres.

Question: To what crops does the 0-92 mechanism apply, and what is the program's purpose?

The 0-92 program applies to grains, while the 50-92 program applies to cotton and rice.

The purpose of both programs is to provide flexibility and to lessen the incentive to plant in return for government payments.

0-92 AND 50-92 PROGRAMS

- **0-92 (Grains)**

Producer can devote to Conserving Use (CU) from zero to all of the maximum Permitted Acres under the ARP.

Producer receives Deficiency in two forms. First, producer receives regular Deficiency on the acreage actually planted to the program crop. Second, producer receives partial Deficiency on part of the remainder -- specifically, on 92 percent of the Permitted Acres less Planted Acres.

- **50-92 (Cotton and Rice)**

Same as 0-92, except that producer must plant the program crop on at least 50 percent of Permitted Acres to be eligible.

Note: The Deficiency Payment Rate for 0-92 and for 50-92 is the Projected Payment Rate, not the actual.

Question: Are all Deficiency Payments made in cash?

No, not all payments are made in cash. Some part of Deficiency Payments (and some other types of payments) may be made with Commodity Certificates.

COMMODITY CERTIFICATES

The Food Security Act of 1985 (the Farm Bill) authorized certain program payments to be made on a noncash basis.

Accordingly, the Commodity Credit Corporation (CCC) issues Commodity Certificates ("Certs"), denominated in a cash amount, backed by the commodities owned by the CCC.

From fiscal years 1986 through 1989, nearly \$24 billion in Commodity Certificates have been issued to farmers as part of their direct payments due them, and to exporters under the Export Enhancement Program (EEP) and under other programs administered by the CCC.

Question: *How does a recipient of a "Cert" turn it into money?*

There are several ways to use Certs, depending on who receives them.

USES OF COMMODITY CERTIFICATES

- A farmer recipient can:
 - Sell or transfer Cert to another person
(The market for Certs trades at a percent of face value)
 - Use Cert to redeem the commodities pledged as collateral for a price support loan
 - Wait 5 months and return the Cert to the government for cash
- An exporter recipient can:
 - Sell or transfer Cert to another person
 - Exchange Cert for CCC-owned commodities

***Note:** An exporter cannot exchange a Cert for cash from the government. Anyone buying a Cert (a "subsequent holder") also cannot exchange it for cash from the government, but subsequent holders can exchange the Cert for CCC-owned inventory.*

***Question:** Many Certs have been used to pay off loans and redeem collateral, especially when Market Price was at or below the Loan Rate in 1986-87. What is meant by "PIK and Roll"?*

The acronym PIK means "Payment-In-Kind," which is what the Commodity Certificates are meant to facilitate. The process of PIK and Roll was used to bring corn out from under Loan without a rise in Market Price and to relieve CCC of excessive inventory and operating costs.

**FARMER'S OPTIONS FOR MARKETING CORN.
(Example Year 1986-87,
with Market Price at or below Loan Rate)**

- A. Produce corn, sell to market immediately, and sell Certs.
- B. Produce corn, put under Loan, pay storage and interest until redeemed, and sell Certs.
- C. Produce corn, put under Loan, redeem Loan immediately with Certs, and then sell corn to market (PIK and Roll).

PIK and Roll Option will save the farmer money by avoiding storage costs, plus it will gain the price differential between Loan Rate and the exchange price used by CCC, known as the Posted County Price (PCP), at which the loan is redeemed with Certs. The PCP follows the local market price.

Question: *If corn Market Price is \$1.55, and is expected to stay at that level, and the Loan Rate is \$1.82, should the farmer (a) sell corn to the market or (b) store the corn under loan?*

Because of storage costs, both options result in about the same revenue as if the producer sold corn to the market immediately.

CORN MARKETING OPTIONS A & B

Option	Quantity	Transaction	Proceeds
A.	Farmer produces	Sells to market @	
	100 x bushels	\$1.55 per bushel	= \$155
B.	Farmer produces	Puts under loan @	
	100 x bushels	\$1.82 per bushel	= \$182
			(\$27)
			Pays 9 months storage cost plus interest
			<hr/>
			\$155
			Net Proceeds

Question: If Posted County Price (PCP) is \$1.55, should the farmer use Option C, PIK and Roll?

If the farmer has Certs, then PIK and Roll will be a better option. The process requires three steps, but these take place almost simultaneously, so that no storage or interest costs are incurred. The corn is put under loan, but immediately "rolled" out via Certs into the market.

CORN MARKETING OPTION C (PIK AND ROLL)

Option	Quantity	Transaction	Proceeds
C.	Farmer produces	Puts under loan @	
	100 bushels x	\$1.82 per bushel	= \$182
			Pays no storage or interest
		Repays loan with certificate valued at Posted County Price	
	100 bushels x	\$1.55 per bushel	= (\$155)
			Gives up Cert
		Sells corn to market	
	100 bushels x	\$1.55 per bushel	= \$155
			\$182 Net proceeds

PIK and Roll earns the producer \$27 more, in this case, than if the corn were sold immediately to the market. In addition, this mechanism allowed corn to come out from under loan and into the market at export competitive prices (a goal of the 1985 Farm Bill). The amount of such corn, in total, depends on the relationship of PCP to market price. For instance, if PCP is below market price, the producer's proceeds from PIK and Roll are greater, and more PIK and Roll occurs.

All three marketing options for 1986-87 corn are shown on the next page.

1986-87 CORN MARKETING OPTIONS

Option	Quantity	Transaction	Proceeds
A.	Farmer produces	Sells to market @	
	100 bushels x	\$1.55 per bushel	= \$155
B.	Farmer produces	Puts under loan @	
	100 bushels x	\$1.82 per bushel	= \$182
			(\$27)
			<hr/> \$155
			Pays 9 months storage cost plus interest
			Net Proceeds
C.	Farmer produces	Puts under loan @	
	100 bushels x	\$1.82 per bushel	= \$182
			Pays no storage or interest
		Repays loan with certificate valued at Posted County Price	
	100 bushels x	\$1.55 per bushel	= (\$155)
			Gives up Cert
		Sells corn to market	
	100 bushels x	\$1.55 per bushel	= <hr/> \$155
			\$182
			Net proceeds

Question For which commodities may a Commodity Certificate be redeemed?

The owner of a Cert may redeem it for any commodity pledged as collateral for a nonrecourse loan, or for any commodity owned by the CCC, as long as that commodity has not been committed by CCC to other programs. The dominant route for Cert issuance has been for Deficiency and Diversion Payments. (Note that total redemption is not equal to total issuance, below, because of Certs outstanding)

**COMMODITY CERTIFICATE REDEMPTION
BY TYPE OF COMMODITY (FY1986-89)**

	Loans	CCC Inventory	Total
Billion dollars			
Wheat	1.5	2.1	3.6
Corn	12.3	3.9	16.2
Sorghum	.7	.6	1.3
Rice	-	.2	.2
Cotton	1.0	.2	1.2
Other commodities	.4	.3	.7
Total	15.9	7.3	23.2

**COMMODITY CERTIFICATE ISSUANCE
BY FARM PROGRAM MECHANISMS (FY1986-89)**

Deficiency/Diversion Payments	\$19.3	Billion
Export Enhancement Program	2.3	
Targeted Export Assistance Program	.3	
Conservation Reserve Program	1.2	
Emergency Feed Program	.1	
Other	.7	
Total	\$23.9	Billion

Question: *What determines whether a Cert will be redeemed for loans, CCC inventory, or cash?*

From a Cert owner's point of view, the option which results in the largest return is the preferred option. The owner calculates the best return according to these two properties of Certs: (1) A Cert is redeemable for loans and CCC inventory at the Posted County Price (PCP); (2) A Cert is redeemable for cash at its face value. Consider the following example:

COMMODITY CERTIFICATE REDEMPTION OPTIONS

Situation: \$1,000 Certificate

PCP: \$2.50 per bushel

Loan Rate: \$1.77 per bushel

Option 1: Redeem 400 bushels under loan ($\$1,000/\2.50)

Receive \$708 (400 @ \$1.77)

Option 2: Cash in Certificate

Receive \$1,000

In this example, the Cert holder will profit more from cashing the Cert than exchanging it for an outstanding loan. The Cert holder can always sell the Cert, and will benefit even more from the sale when Cert buyers are offering a premium to the Cert's face value.

Question: Are Certs used in the Export Enhancement Program (EEP) and the Farmer-Owned Reserve (FOR)?

Yes. Commodity Certificates are given to exporters under the Export Enhancement Program (EEP) and can be redeemed for grain in the Farmer-Owned Reserve (FOR). How this works in both cases will be covered in Part Three.

SOME BASIC MECHANISMS OF U.S. FARM POLICY

Target Price	Projected Deficiency
Loan (Nonrecourse loan) Rate	Advance Deficiency
Deficiency Payment	Base Acres & Program Yield
Original Deficiency	0-92 & 50-92
Reduced (Findley) Loan Rate	Commodity Certificate
Emergency Compensation	Posted County Price (PCP)
Acreage Reduction Program (ARP)	PIK and Roll
Paid Diversion	Export Enhancement
Base Acres	Farmer-Owned Reserve (FOR)
Program Yield	Corn (& Wheat) Catalog
Program Production	Reserve Rollover
Basic Commodities	Conservation Reserve Program
Acreage Conservation Reserve	Disaster Payment
Conservation Use	Marketing Loan
Payment Limitation	

Part One concentrated on the left-hand side of this list, and Part Two on the seven mechanisms at top right.

Part Three will cover the remaining seven mechanisms on this table.

A USDA-ERS BRIEFING BOOKLET

THE BASIC MECHANISMS OF U.S. FARM POLICY

PART THREE:

**Export Enhancement, FOR,
Marketing Loans, Disaster
Payments and CRP**

How They Work

The complete array of farm policy mechanisms can appear overwhelming to anyone unfamiliar with the history of U.S. agricultural legislation. But each mechanism originated in Congress, reflecting public concerns about food, agriculture, and the needs of farmers.

SOME BASIC MECHANISMS OF U.S. FARM POLICY

Target Price	Projected Deficiency
Loan (Nonrecourse loan) Rate	Advance Deficiency
Deficiency Payment	Base Acres & Program Yield
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Acreage Conservation Reserve	Disaster Payment
Conservation Use	Marketing Loan
Payment Limitation	

Part One concentrated on the left-hand side of this list, and Part Two covered the seven mechanisms at top right.

Part Three covers the remaining seven mechanisms on this table.

Let's begin with two pages of review from Part Two.

Review Question: *Are all payments made by USDA for such mechanisms as Diversion and Deficiency made in cash?*

No, all payments are not necessarily made in cash. Some part of Deficiency Payments (and some other types of payments) may be made with Commodity Certificates

COMMODITY CERTIFICATES

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Review Question: *How does a recipient of a "Cert" turn it into money?*

There are several ways to use Certs, depending on who receives them.

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 - Exchange Cert for CCC-owned commodities

Note: An exporter cannot exchange a Cert for cash from the government. Anyone buying a Cert (a "subsequent holder") also cannot exchange it for cash from the government, but subsequent holders can exchange the Cert for CCC-owned inventory.

Question: The Export Enhancement Program (EEP) provides Certs to exporters for the purpose of expanding U.S. agricultural markets abroad. What commodities have export bonuses been provided for under EEP?

A dozen different commodities have been provided for under the Export Enhancement Program (EEP).

EEP COMMODITIES

Wheat and Wheat Flour
Barley and Barley Malt
Semolina
Sorghum
Rice
Poultry Feed
Vegetable Oil
Frozen Poultry
Dairy Cattle
Table Eggs

From the beginning of EEP through Fiscal Year 1989, \$8.5 billion worth of agricultural commodities have been exported under EEP provisions. Bonuses awarded to exporters have amounted to \$2.3 billion.

Question: *Who decides which commodities and countries are eligible for EEP?*

An announcement of an EEP initiative is a multi-step process, which begins with development of a proposal within USDA. This proposal is then presented to the Trade Policy Review Group, which consists of representatives of the following Departments in the Federal Government:

TRADE POLICY REVIEW GROUP FOR EEP

Department of Agriculture
U.S. Trade Representative
Department of State
Office of Management and Budget
Department of Treasury
Department of Commerce
National Security Council

ORIGINAL EEP CRITERIA

- EEP sales counter competitors' subsidies and other unfair trade practices in targeted markets.
- EEP sales must possess the potential to develop, expand, or maintain markets for U.S. commodities.
- EEP sales should not have more than a minimal impact on non-subsidizing competitors.
- EEP sales should be maintained at the minimum level necessary to achieve the program's expected benefits of export expansion and trade policy reform.

The Trade Policy Review Group decides whether a particular proposal meets the program objectives for EEP; after approval, USDA announces the initiative. Criteria for EEP are changing as market conditions change.

Question: *What happens after an EEP initiative has been announced?*

The EEP process after announcement involves private exporters:

STEPS AFTER ANNOUNCEMENT OF EEP INITIATIVE

- Private exporters contact prospective buyers for the announced initiative in the approved country, or buyers tender for all or part of the initiative and accept offers from prospective exporters.
- After tentative agreement on a sale, the private exporter submits a request to USDA for a subsidy or bonus with which to complete the sale.
- If USDA accepts the request, the sale may proceed, and the bonus is paid to the exporter in Certs.

Question: *Another policy mechanism which affects both exporters and farmers is the Farmer-Owned Reserve (FOR). Can Certs be redeemed for grain pledged as collateral for a long-term nonrecourse loan under the FOR program?*

Yes, Commodity Certificates can be redeemed for grain in the Farmer-Owned Reserve (FOR).

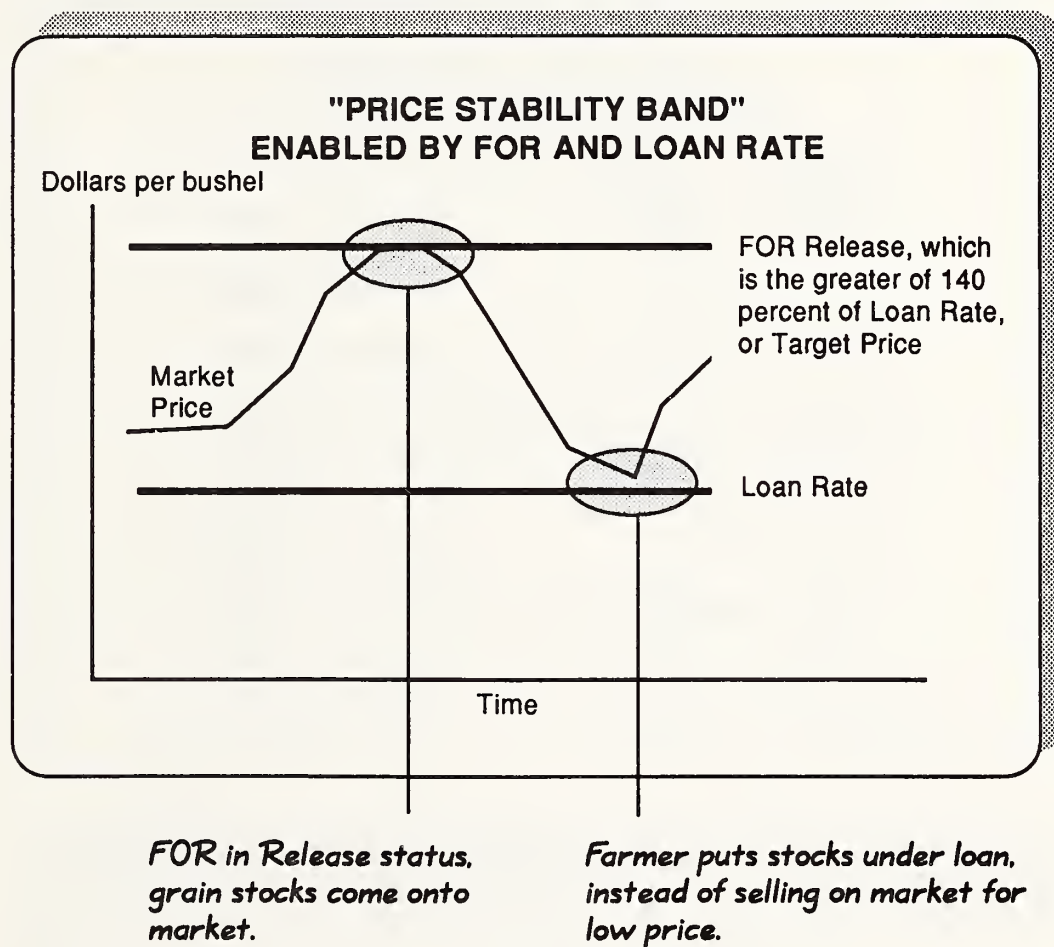
FEATURES OF FARMER-OWNED RESERVE (FOR)

- Applies to grain only
- When entry is permitted, farmer usually converts a standard nonrecourse loan to the FOR by committing to store the commodity for at least 3 years or until Market Price reaches certain "trigger levels," after which the FOR is said to be in "release," and the commodity may be marketed.
- In return for keeping the commodity off the market and in reserve, the USDA pays the farmer a storage payment per month, and waives interest on the loan after the first year.

The "trigger release" can be avoided by using Certs. For instance, if release is \$3.20 but PCP is \$2.50, then a farmer holding a \$1,000 Cert could redeem 400 bushels of his or her own FOR grain -- without waiting for FOR Release to occur. After such redemption, the farmer must pay back any unearned storage payments which have already been received.

Question: *What is the main purpose of the FOR?*

The main goal of the Farmer-Owned Reserve (FOR) is to help provide a "price stability band" for grain, with trigger release at the top and Loan Rate at the bottom, as shown below.



Question: Under what circumstances would a farmer choose to redeem FOR grain with Certs?

Certain relationships between prevailing Market Price, PCP, and storage rates will make it profitable for a farmer to redeem FOR grain with Certs.

Below is a case of a farmer with 400 bushels of grain in the FOR and who has 1 month left before maturity of the loan.

**REDEEMING GRAIN FROM
FARMER-OWNED RESERVE (FOR)**

FOR grain (bushels)	400
PCP per bushel	\$2.50
Value of Certs needed to redeem FOR grain	\$1,000
Expected Market Price per bushel	\$2.60
Value of grain sale	\$1,040
Gain from sale	\$40
Loss of storage payments (1 month)	\$9
Net gain	\$31

In this example, the farmer would gain \$40 by redeeming and selling the 400 bushels, but would have to give up \$9 in storage payments -- for a net gain of \$31.

Question: *Would not the above farmer make more money by waiting until the loan matured and then repaying the loan with cash and selling the grain in the market?*

The farmer is better off redeeming the Loan with Certs if the cash redemption value (Loan Rate plus interest charges) exceeds the PCP.

REDEEMING GRAIN FROM FARMER-OWNED RESERVE (FOR)

	Cert Exchange Now	Cash Loan Repayment at Maturity
FOR grain (bushels)	400	400
PCP per bushel	\$2.50	\$2.50
Loan Rate per bushel	na	\$2.55
Interest charges per bushel	na	\$0.30
Cash redemption value per bushel	na	\$2.85
Certs used to redeem grain	\$1,000	na
Cash used to redeem grain	na	\$1,140
Expected price per bushel	\$2.60	\$2.60
Value of grain sale	\$1,040	\$1,040
Loss of storage payments	\$9	na
Net gain/loss	\$31	-\$100

In this example, the farmer is much better off by redeeming the FOR grain with Certs than waiting for the FOR Loan to mature. In fact, if the farmer did not own a Cert, the farmer ought to be willing to pay up to \$1,031 for a \$1,000 Cert in order to redeem the FOR grain.

Question: Can a farmer redeem FOR grain prior to the Loan maturity date even though the Reserve is not in Release Status?

Yes, a farmer can redeem grain from the FOR with Certs at any time.

Note: A farmer cannot redeem grain from the FOR with cash prior to the Loan maturity date unless the FOR is in Release Status. Farmers must pay certain charges and penalties if they redeem the Loan with cash prior to maturity or Release.

FARMER-OWNED RESERVE (FOR) RELEASE STATUS

Release Status is reached whenever the 5-day moving average of certain market prices exceeds the "trigger release level," which is the greater of Target Price or 140 percent of the current Loan Rate (regardless of the Rate when the Loan was taken out).

When in Release Status, farmer has three options:

1. Repay FOR Loan and sell grain.
2. Leave grain in Reserve
3. Repay FOR Loan and hold grain.

If Market Price is above Trigger Release Level for 2 consecutive months, storage payments to the farmer stop and interest charges resume (which encourages marketing).

The ability of Certs to redeem grain from the FOR when it is not in Release Status has helped to provide grain to buyers when markets would otherwise have been very tight.

Question: *Were either corn or wheat FORs in Release Status during the 1988-89 season, the year of the severe drought across much of the Nation?*

No, the corn and wheat Reserves did not go into Release Status during crop year 1988-89. However, corn was in Release Status at the end of June and during July of 1988, prior to the harvest of the 1988-89 crop.

**CORN AND WHEAT FOR RELEASE STATUS
DURING 1988-89**

	Wheat	Corn
	\$/bushel	
Target Price	4.23	2.93
Loan Rate	2.21	1.77
140% of Loan Rate	3.09	2.48
Release Trigger	4.23	2.93
Season-average Market Price	3.75	2.60

Prices in 1988-89 averaged below Release because large stocks were held under regular and Reserve Loans, and the CCC owned large stocks. Many of these stocks were marketed because farmers and exporters used Certs to acquire them. This kept Market Prices from rising to Release.

Question: *How does CCC ensure that grain held in the FOR meets minimum quality standards?*

To ensure grain quality in the FOR, the CCC allows farmers to sell old grain in the FOR and replace it with more recently harvested grain.

RESERVE "ROLLOVER"

- Farmer may sell old grain in FOR and replace with newly harvested grain.
- Farmer is given from 45 to 60 days in which to sell the old grain and replace it with new.

During this short period near the end of the crop year, the FOR is "open" to the market without being in Release Status.

Question: *How are CCC stocks made available to holders of Certs?*

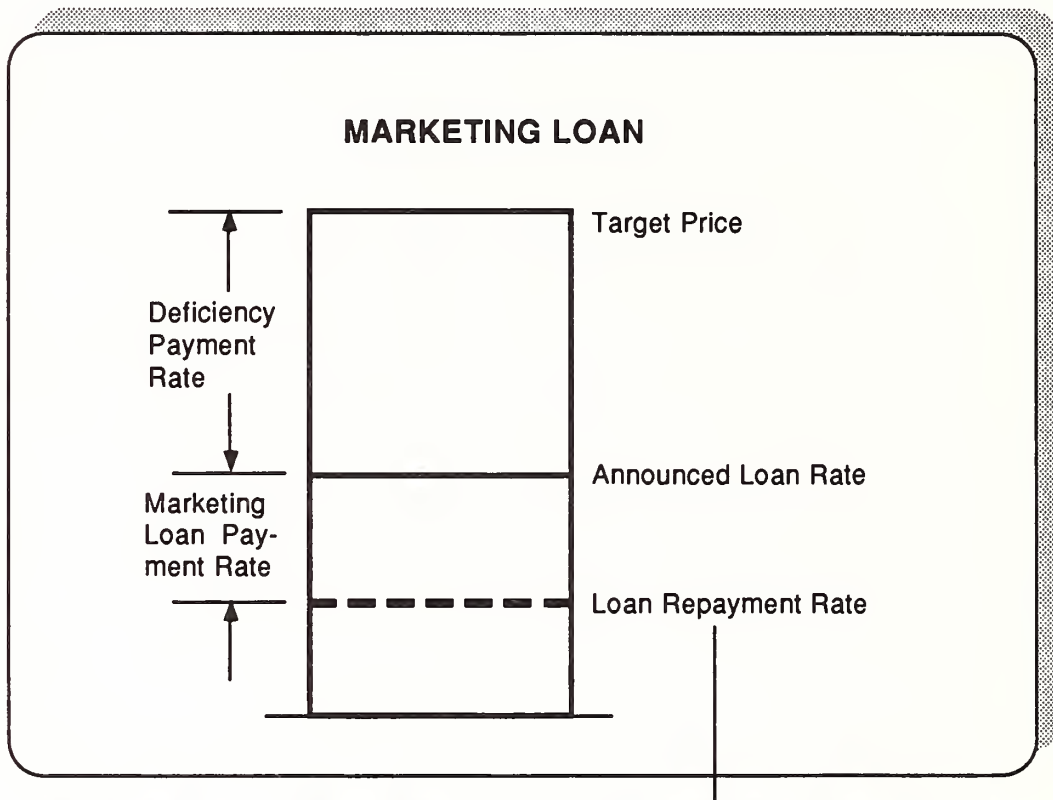
The CCC issues periodic catalogs which provide information to Certificate holders on inventories held by the CCC, and which the CCC desires to dispose of.

CCC CATALOGS

- Catalogs contain details on the amount, quality, and location of specific lots of grain held by CCC.
- CCC sets price of CCC catalog grain based on market conditions, location, and quality.
- CCC offers grain for sale on first come basis.
- Purchaser of catalog grain takes ownership by exchanging Certs for the grain.

Question: Certificates allow farmers to repay their Loans at the going Market Price. Is that the same thing that a "marketing loan" does?

Both Certificates and Marketing Loans permit the payment of Loans at less than the Loan Rates. Marketing Loans are required under the 1985 Farm Bill for upland cotton and rice and are discretionary for feedgrains and wheat.



The Marketing Loan Repayment Rate may be set below the announced Loan Rate to prevent the announced Loan Rate from being a floor and thus causing U.S. commodities to be uncompetitive when world market price is low. Producers can repay their Loan at the Loan Repayment Rate, sell the commodity at a similar Market Price, and still receive Deficiency based on the announced Loan Rate.

Question: *How is the above Loan Repayment Rate determined?*

The 1985 Farm Bill specified that the Loan Repayment Rates be set at the World Price, subject to certain minimum levels.

MINIMUM LOAN REPAYMENT RATES

Feedgrains	70 percent of Basic Loan Rate
Wheat	70 percent of Basic Loan Rate
Rice	70 percent of Loan Rate
Cotton	
Plan A	80 percent of Loan Rate
Plan B	World Market Price

Question: *What is the difference between Plan A and Plan B cotton Marketing Loan programs?*

The basic difference between Plan A and Plan B cotton Marketing Loan programs is that under Plan A the Repayment Rate is fixed at the beginning of the crop year and does not rise or fall with World Price.

COTTON MARKETING LOAN PROGRAMS

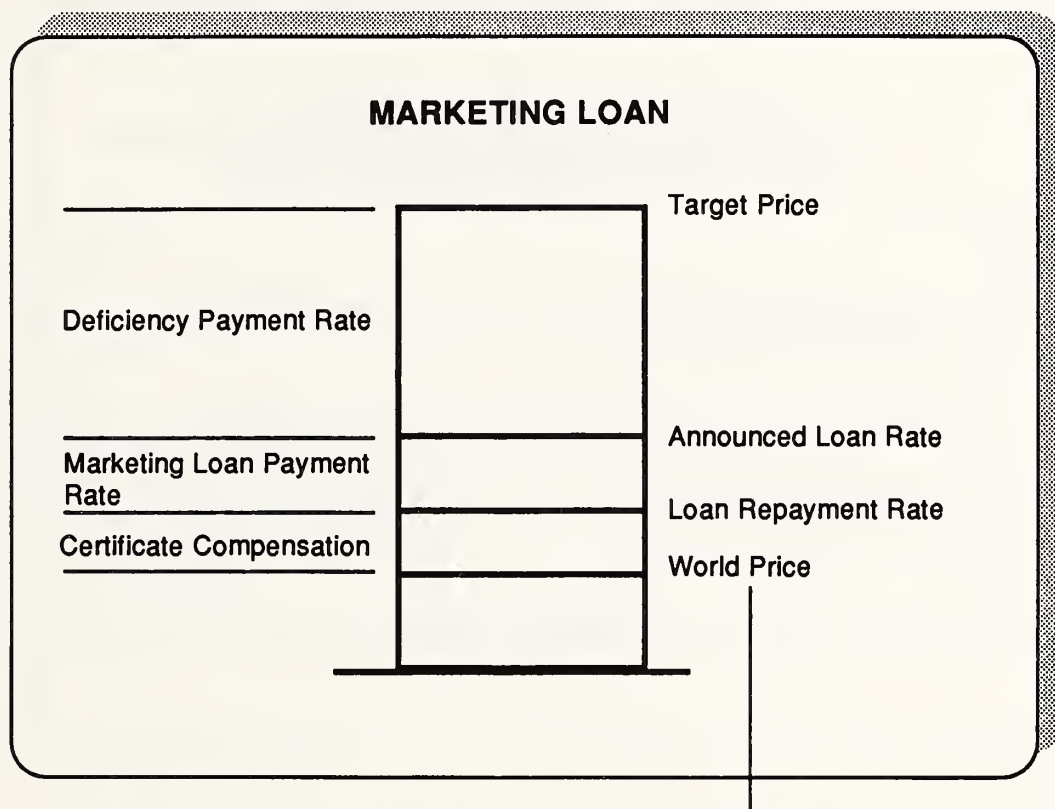
Plan A. Loan Repayment Rate set at the beginning of the crop year and cannot be set at less than 80 percent of the announced Loan Rate.

Plan B. Loan Repayment Rate equal to World Price. However, if World Price is below 80 percent of the announced Loan Rate, the Repayment Rate may be set at no higher than 80 percent of the Loan Rate.

USDA used Plan A during the 1986-87 crop year. As market prices strengthened during the season, farmers were able to repay Loans at the fixed rate, which was well below Market Price. Plan B has been used since then.

Question: *Under the above kind of program, wouldn't crops be uncompetitive in world markets if world prices fell below the minimum Loan Repayment Rates?*

If the World Price is below the Loan Repayment Rate, payments in the form of Certs are made to keep the commodity fully competitive in the world market.

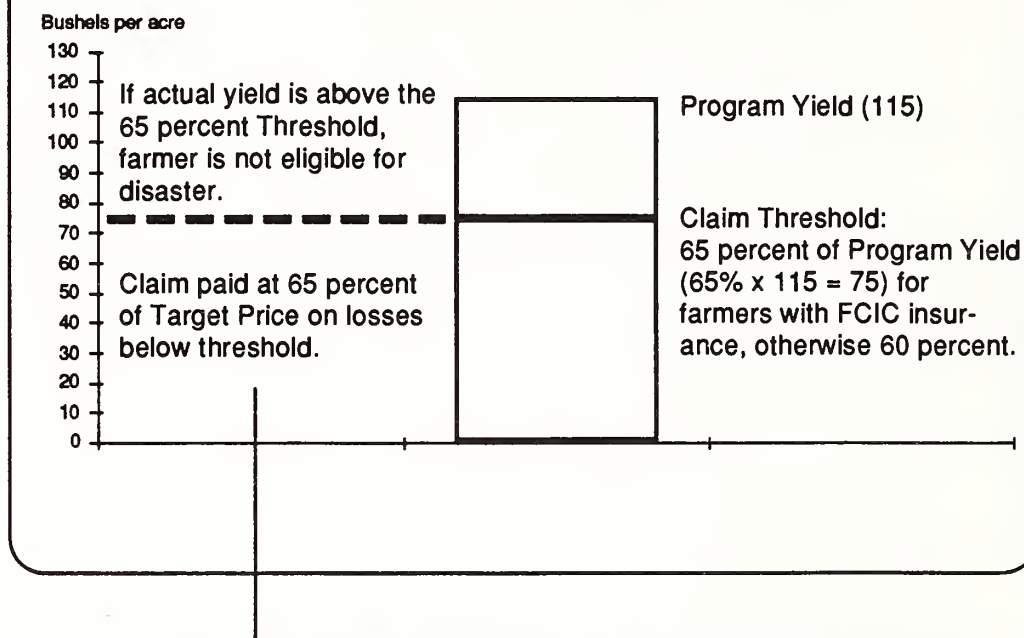


When the World Price is above the announced Loan Rate plus interest, the Marketing Loan is no longer in effect. The producer may repay the Loan at the regular Loan redemption price (Loan Rate plus interest).

Question: *How are Disaster Payments determined?*

Disaster payments depend on the level of yield loss and the Target Price for the program crop of participating farmers.

DISASTER PAYMENT CRITERIA (Corn, Disaster Assistance Act of 1989)

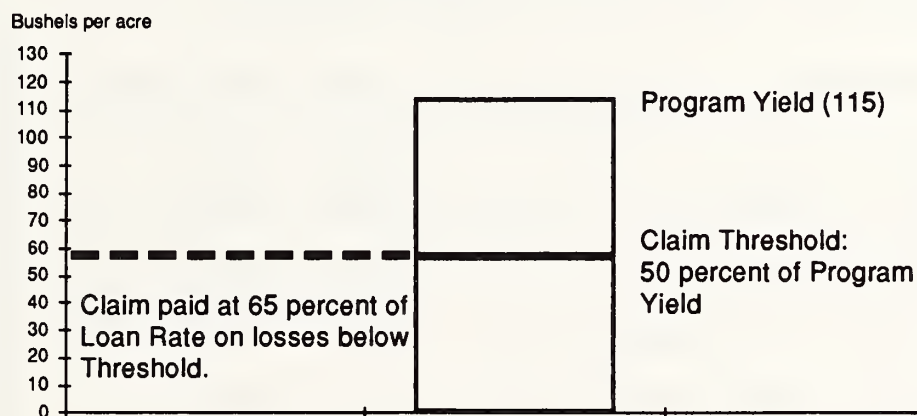


If actual yield is below the 65 percent Threshold (or 60 percent for farmers not having FCIC insurance), farmer is eligible for claim on that portion below the Threshold. For peanuts, sugar, and tobacco, the compensation rate is 65 percent of the Support Price.

Question: Does the Disaster Assistance Act provide assistance to non-participants in commodity programs?

The Disaster Assistance Act of 1989 provided payments to producers of program crops who were nonparticipants in commodity programs based on the loss level and the crop's Loan Rate (instead of Target Price, used for participants).

DISASTER PAYMENT CRITERIA FOR NONPARTICIPANTS (Corn, Disaster Assistance Act of 1989)



For soybeans, the claim Threshold is 55 percent (50 percent for other non-program crops) of county yield. Payment rate is 65 percent of average price received during previous 5 years, excluding highest and lowest years.

Question: *Can a producer receive both a Deficiency Payment and a Disaster Payment on the same acreage?*

No, a farmer who receives Disaster Payments gives up Deficiency Payments on those acres which receive the Disaster Payments.

**ELIGIBLE PRODUCTION TO RECEIVE
CORN DISASTER AND DEFICIENCY PAYMENTS**

Planted acres	400	acres
Program Yield	100	bushels per acre
Program Production	40,000	bushels
Disaster Threshold	26,000	bushels
Actual production	20,000	bushels
Production receiving Disaster Payments	6,000	bushels
Production receiving Deficiency Payments	34,000	bushels

Question: *Are livestock producers also eligible for Disaster Assistance?*

Livestock producers affected by drought are eligible for Disaster Assistance under a variety of programs.

**DISASTER ASSISTANCE FOR LIVESTOCK PRODUCERS
(Disaster Assistance Act of 1989)**

- Emergency Feed Program (EFP). CCC provides up to one-half the cost of purchased feed, not to exceed 5 cents per pound.
- Emergency Feed Assistance Program (EFAP). Producers may purchase CCC-owned grain at the rate of 50 percent of market price.
- Haying and Grazing. The Secretary may authorize haying and grazing of ACR, CUA, and CRP acreage.

Question: *What is the CRP, and how much acreage is currently in it?*

The CRP is the Conservation Reserve Program, which currently has over 30.6 million acres enrolled, and bids on another 42 million acres as of the end of 1989. The 1985 Farm Bill called for a CRP of 40 to 45 million acres by the end of 1990.

CONSERVATION RESERVE PROGRAM

The CRP is a long-term retirement program for erodible land. Producers submit bids for a 10-year contract, stating the annual payment they would accept to convert the highly erodible land to vegetative cover. Accepted bids must not exceed prevailing local rental rates for comparable land.

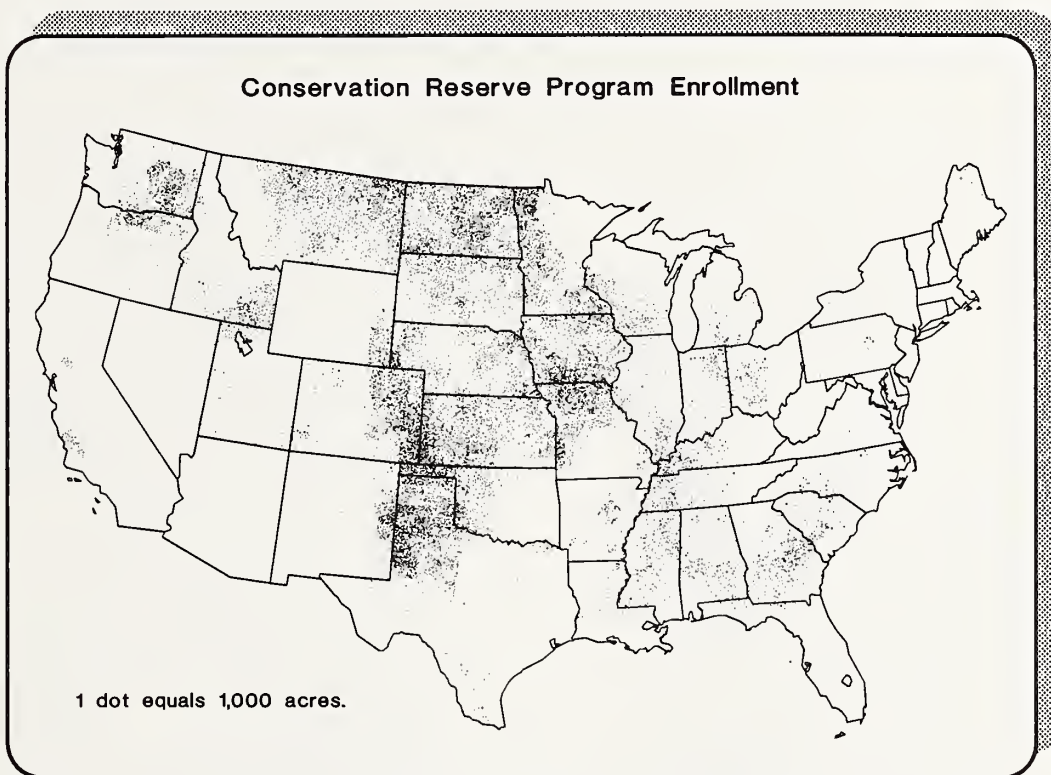
CRP ACREAGE IN 1989

Wheat	9.2	Million acres
Corn	3.4	
Sorghum	2.2	
Barley	2.4	
Oats	1.1	
Cotton	1.2	
Other	<u>11.1</u>	
Total	30.6	Million acres

About 64 percent of CRP acreage has come from program crop Base Acres, resulting in a reduction of the total Base Acres. Wheat accounts for 50 percent of the CRP acreage coming from program crops.

Question: *What's the regional distribution of CRP acreage?*

CRP acreage is generally concentrated in the Plains States and the Western Corn Belt.



Question: *Where can the interested reader go for further details on the basic mechanisms of U.S. farm policy?*

The most detailed source of information on farm policy mechanisms is the Agricultural Stabilization and Conservation Service (ASCS) of the USDA. The ASCS maintains an Analysis Branch in Washington, and has agents in every county of the country.

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